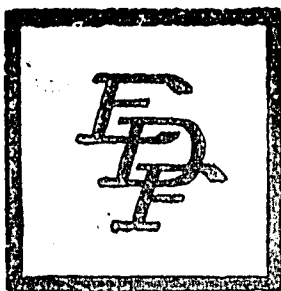
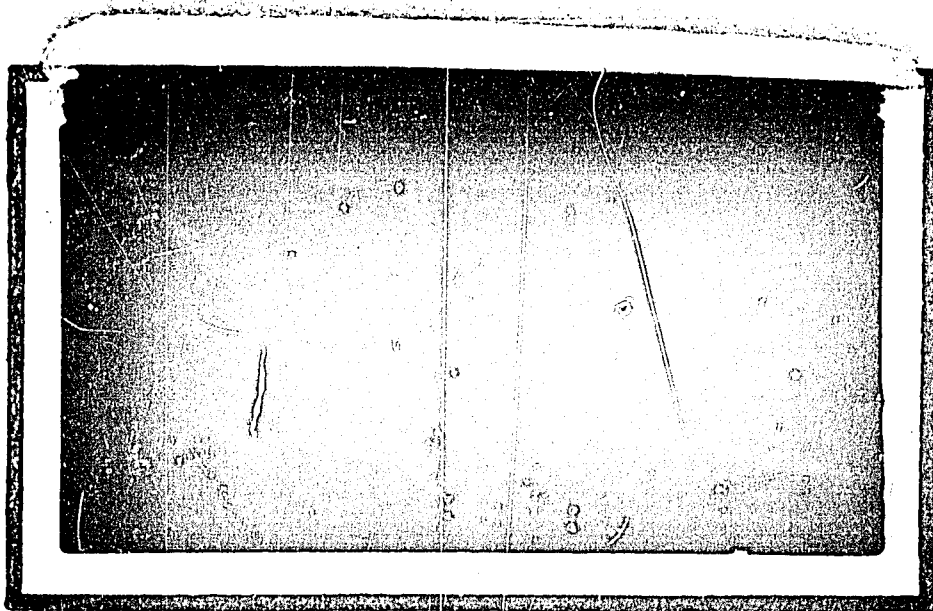


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ECONOMIC DEVELOPMENT FOUNDATION

An Introduction to a
Short-Term Treasury Bill Market
in the Philippines

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AN INTRODUCTION TO A SHORT-TERM
TREASURY BILL MARKET IN THE PHILIPPINES

INTRODUCTION

Background

The short-term money market in the Philippines has thus far suffered from three principal deficiencies. First, it has been largely marked by highly personal transactions among individuals and institutions. Second, it has suffered from lack of suitable merchandise in the volume and variety that enables the market to fill the wide range of maturities and diversity of instruments which fund managers are looking for. Third, it has not had an organized dealer network that stimulates secondary trading in short-term money market instruments and ensures their ready transferability.

The combination of these three deficiencies has produced a situation where there are really many small and imperfect sub-markets. There are several inter-bank markets for what is known as "call money". These are deposits of commercial banks with the Central Bank

which, at the end of a clearing day, may be in excess of the bank's legal reserve requirements. Several groups of banks have agreed to lend excess funds to banks who close the clearing with a reserve deficiency. Then there is a market for commercial bank promissory notes which are called here bankers acceptances. They are sold directly by each bank to an individual or institution who holds them to maturity. There is no secondary trading in these instruments.

There is also an inter-company call market through which companies with surplus funds place their money on 7- or 30-day call terms with other companies who may need short-term funds. For this purpose, they use an investment bank as intermediary.

Finally, there is a commercial bill market in which finance company paper is the principal instrument. This paper once again, is simply a promissory note of finance companies which is sold to an individual or to institutions and are usually held to maturity, the maturity being anywhere from six months to one year. Once again, there is no secondary trading in these instruments.

In a situation where many imperfect sub-markets exist which are highly personal in character, where there

are wide gaps in the range of maturities and types of instruments held in portfolio and where there is little or no secondary marketing of instruments, it is not possible to identify the true supply and demand situation for funds and a logical structure of free market interest rates. It becomes extremely difficult for a central bank in such a situation to have a basis for formulating monetary policy or use its instruments to make delicate adjustments in the markets for short-term funds. It also places fund managers in the unhappy situation of having little to choose from between low-earning liquid deposits and high-earning less liquid loans and investments. It would not be too far-fetched to say that one reason for the tendency of commercial banks to go rather long on their loan portfolios is because this is the only alternative for increasing their earning assets.

The immediate objectives, therefore, of this program for introducing short-term treasury bills are to create a more efficient impersonal free money market in the country, stock this market with a wide variety of high-grade and liquid bills offering yields which are freely determined by the market itself and build up the dealer network that will stimulate secondary trading in the bills.

The Medium

It is anticipated that over a twenty-five week period the Bureau of the Treasury will be able to issue through competitive bidding a series of 91-day Treasury bills, totalling \$65 million. The rate of return on the bills, which will be sold at a discount, will gradually be set by the market through the action of supply and demand at the time of each weekly tender. At maturity, immediate payment will be afforded to holders of bills through a procedure described below. After the first six months there will be available in the market bills with maturities of anywhere from one to thirteen weeks.

In contrast to the issuance of fixed interest-bearing obligations requiring accurate judgment as to the rate at which the market will absorb an issue, Treasury bills do not require such precise judgment since the auction method assures the Government of the highest price (lowest discount rate) obtainable in the market.

The Market

A dealer network is being formed to consist of six or seven dealers, both bank and non-bank, who will

be grouped into a "National Association of Philippine Government Securities Dealers". Members of the NAPGS will abide by a set of trading conventions and will be accredited by the Central Bank. Their role will include but will not necessarily be limited to the following:

- a) Develop and maintain a government securities market
- b) Establish trading practices, hours, commitment spreads, minimum trading limits, etc.
- c) Encourage members to underwrite, syndicate, and participate in treasury financing to the degree required
- d) Advise and report to the Central Bank and Department of Finance on the market
- e) Originate and foster financing techniques
- f) Develop financing sources and
- g) Educate the financial community, potential investors, public, and press in respect to a free government securities market.

Aside from the dealers, banking and financial institutions, insurance companies, and business enterprises which demand significant amounts of liquid assets in their loans and investments portfolios would be the primary traders in a Treasury bill market. For banks,

the idea would be to provide them with readily marketable assets as secondary reserves^{1/} that could meet the requirements of deposits fluctuations, serve as a reservoir of liquid funds to meet additional loan requirements, and pay a rate of return higher than non-interest bearing cash or primary reserves.

Insurance companies could temporarily place large sums of funds in short-term treasury bills from their cash floats and from other funds awaiting attractive opportunities for long-term investments.

The Central Bank could also be a big source of funds as it manipulates the monetary level in the economy^{2/}. Private corporations could invest reserves for tax payments and temporary surplus funds could be invested in this short-term security.

The short-term market will therefore be concerned also with satisfying the working capital needs of trade, industry and agriculture, and extending credit to customers.

^{1/} Please see Appendix II. - The Importance of Secondary Reserves for Commercial Banking by Chester G. Babst, Executive Vice-President, Pacific Banking Corporation.

^{2/} For more details, please see Appendices I and IV.

THE DEALER NETWORK

Operations of a Dealer

A dealer operates as a buffer between buyers and sellers of securities by establishing a purchase price (bid side) and offering price (offered side) at which he is willing to make a commitment. The combination of the two makes the market quote. It is not necessary for the dealer to know which side of the market the inquiry is directed to until after the quote is made. He is buying or selling at his own risk until he is able to reverse the position. A series of purchases by customers on his offered side would cause him to constantly raise his price in subsequent quotes. Conversely, as his bid side meets selling, he would lower his purchase price. The movement of the bid and offered side in the face of competitors vying for the business establishes the free market.

Relationship of Dealers with the Central Bank and the Department of Finance

The Central Bank has accepted to recognize, do business with, and rely upon the dealers in the Treasury bill market. The dealer would be regarded as an intermediary

in the money market for the execution of monetary policy through the medium of purchases and sales, repurchases, the execution of Central Bank orders and the dissemination of market information. Dealer-Central Bank rapport and confidence would be built through personal contacts, discussions on the tenor and tone of the market, and a system of dealer reports on position and financing.

Contact of the dealer organizations with the Department of Finance would be on the order of execution of Treasury security orders directed through the Central Bank securities market, meeting and consultations with the dealer organization as deemed necessary for budgetary needs, refinancing and setting of fiscal goals.

The Commercial Banks

The commercial banks would play a most important role in the free securities market. The ebb and flow of funds, reserves, loans, and investment requirements makes them primary customers in the market. Their customer inquiries, trust orders, and other investment needs could be satisfied in the open market. The banks would also operate with the dealers in financing positions through loans and repurchases, safekeeping of securities, clearance of security contracts, and similar

contracts. A free market with a reputable and responsible dealer organization will enable the banks to gauge their liquidity, primary and secondary reserve needs more accurately and provide a market in which they operate to rectify imbalances. With the crystallization of the country's monetary and fiscal needs in terms of a yield curve in a free market, the banks and dealers will be more responsive to these needs.

Central Clearance Bank

Inter-dealer contracts, the numerous customer clearances, and the details of trading could be centralized and cleared in orderly fashion with a central clearance bank. It has been suggested that the Philippine National Bank be the clearing bank for the dealer organizations.

PROCEDURES IN THE TRADING OF TREASURY BILLS

Summary of Trading in Treasury Bills^{3/}

On a designated day the Secretary of Finance will invite public competitive bids for a stated amount of

^{3/} A more detailed discussion on this subject will be found in Appendix III.

91-day Treasury bills. Tenders must reach the Central Bank not later than a designated date and time. The Central Bank opens the tenders and arrange the bids in declining order of prices after closing hours. Beginning with the highest bids (lowest discount rate), the Secretary of Finance accepts bids in full until the amount offered is covered. The Secretary of Finance then announces the outcome of the offer, the total amount of the bids received; the amount accepted; the high, low, and average rates; and the percentage of the amounts of bid accepted at the low price (high discount rate). The next day's newspapers carry this announcement. The Central Bank then notifies the bidders of the acceptance or rejection of their tenders. Payment for maturing bills immediately follows in cash or reserve balances.

Treasury Bill Cycle

In detail, procedures in the trading of treasury bills are as follow:

1. Announcement - Offering of Treasury Bills

The initial announcement of treasury bills will be accomplished by a statement of the Secretary of

Finance with respect to the anticipated continuation of the process of bill issuance over a period of time. While it may be inferred that a complete cycle of bills is anticipated, the announcement may allow sufficient flexibility to curtail or defer subsequent issues if deemed advisable. The form of the official announcement is incorporated in Specimen 1.

The Central Bank of the Philippines, as fiscal agent of the Republic, makes the offering of treasury bills. The procedure and timing are detailed. The Central Bank may initially circularize known interested parties and over a period of time establish a representative mailing list of parties evincing continuing interest.

2. Distribution of Tender Forms and Envelopes

In conjunction with the announcement of offering, the tender forms (Specimen II) and envelopes addressed to the Central Bank and marked "Tender for Treasury Bills" will be distributed. The announcement and tender forms detail all circumstances that should be rigidly adhered to in the acceptance of bids and the scrupulous award of bills based upon tender price. The entire system is dependent upon complete objectivity at this point of auction.

While it is not a general practice in auction bidding, the Secretary of Finance in consultation with the Monetary Board may deem it suitable during the growth period of the auction to announce a "Range of Yields with Corresponding Prices" (Table 1) indicating a range of bids which might be acceptable. Variation in market and monetary conditions may call for different ranges of yields.

3. Acceptance of Tenders

As stipulated in the announcement, the bidding forms will be accepted at a specific place and prior to a time deadline. This will be rigidly enforced by adequate safeguards of time clock procedures. With the time deadline all forms at the windows ready for presentation will be accepted by a stopped clock with subsequent presentations unacceptable. Envelopes will then be time stamped.

4. Array of Tenders and Awards

Immediately after the closing hour the tenders will be opened at the Central Bank, tabulated in array form according to price (Table II) awards determined, and published in an announcement made by the Secretary

of Finance of the amount and price range of accepted bids. This will take the form of an official press release. The Central Bank will advise bidders of the acceptance or rejection of their bids (Specimen III-A and Specimen III-B, respectively).

Table II also shows the array of tenders indicating different types of bidders.

On the basis of the foregoing, the free market dealers will attempt to pinpoint and evaluate the market depth in relation to other bills in the cycle as well as competing media. The dealer sales organizations will be in touch with the potential bidders with advice as to the expected range of bids and aggressiveness of bidding. This will tend to narrow the array of bids into a meaningful grouping.

5. Award Announcement (Press Release)

After the bidding (after array and award) there will be a suitable press release by the Secretary of Finance in the papers. Pertinent data and statistics will be detailed in the form indicated in Specimen IV. An occasional comment regarding the level at which the bills were awarded in comparison to the previous week, month or years, may be used. It may be necessary to

award P1,000 or P2,000 above the P5 million announcement on infrequent occasions to allow for the percentage award at the low bid.

6. Issuance of Bills - Receipt of Payment

Issuance of the bills (Specimen IV) on the prescribed date will be made promptly. Bills will be issued in bearer form and in several denominations. Payment will be received upon the release of the bills in the manner detailed in the tender form.

7. Payment at Maturity

Presentation of the bills at maturity will entail the immediate payment by the Central Bank through credit to reserve account or cash payment from funds immediately available for the purpose.

DEVELOPMENT OF THE
TREASURY BILL MARKET

The Issuance of the 91-Day Treasury Bills

As envisioned, a total of P65 million of treasury bills will be issued during the first two cycles of bills

or six-month period. Subsequent issues may be on a simple roll over basis each week.

An assessment of the money market impact, the public reaction, the mechanical problems, the growth of the private free market and all other factors involved would, at this point of the cycle, be timely. With a popular reception, expansion into a new 182-day cycle of bills of P2.5 million to P5 million per week might be propitious. A time calendar allowing for tenders, auctions, and issuance can be readily devised for superimposition on the 91-day cycle.

Yield Curve

The outstanding benefits contemplated in the issuance of treasury bills in the manner outlined would be the establishment of a short-term yield curve. With outstanding issues being freely quoted and traded in a free market, a 91-day yield curve, expanded to 182 days and subsequently to one year could be established. With these reference points an enhanced image of monetary stability would enable projections to the 2-year, 5-year, 10-year and longer periods upon which to build an extended yield curve. Issuance of bonds in these areas,

freely traded in the open market might be deemed the desirable end product.

Expansion of the Market

The creation of a 91-day bill cycle over a period of six months, the expansion in the following six months into a 182-day cycle, and subsequent enlargement of the bill cycle with introduction of a monthly, one year bill cycle would embrace a minimum time period of 1-1/2 to 2-1/2 years. At the conclusion of that period, a total of thirteen 91-day bills would be outstanding in the amount of P5 million each (total P65 million), twenty-six 182-day bill issues in the amount of P2.5 million each (total P65 million), and twelve issues of monthly bills of P5 million each to complete the one-year cycle (total P60 million). The program thus envisages a total of 38 bill issues outstanding in maturity value of P190 million total. The structure of the maturities would embrace 26 weekly bill maturities maturing say, each Monday (91-day and 182-day bills overlap) for six months and 12-month-end bills with maximum maturity of one year. Upon occasion, the month-end maturity would coincide with the weekly Monday maturity.

Open Market Operations of the
Central Bank and Interest Rates

The movement of interest rates on treasury bills in the open market would be strongly influenced by the monetary policies of the Central Bank. The degree of intervention by the monetary authorities in the money market, in turn would depend upon the economic conditions in the country, the financial position of the Bureau of Treasury, and the economic policies followed by the government.

Eventually, the open market operations of the Central Bank would, during periods it deems desirable, affect the credit policy of the banking system via its level of available reserves. Open market purchases would tend to raise prices and lower yields of the Treasury bills. Additional funds injected in the reserves of banks would induce them to lower interest rates on loans. If the marketable issues of Treasury bills become large, its lower yields could even result in effecting a general decrease in rates of interest. Conversely, open market sales would reduce reserves in the banking system. This would tend to raise interest rates as prices of the Treasury bills go down. These

open market operations will be used in the event the Central Bank decides that interest rates in the money market need adjustment.

The Charter of the Central Bank provides another fund, however, which has the purpose purely of stabilizing the prices and yields of government debt instruments in the market. This is the Securities Stabilization Fund. This will need to be used for the purpose of dampening excessive fluctuations in the prices/yields of the Treasury bills.

APPENDIX I

by

ANDRES V. CASTILLO

The Central Bank - Its Obligations
and Relationships with Commercial Banks
as Dealers in the Government Securities Market

THE CENTRAL BANK --
ITS OBLIGATIONS AND RELATIONSHIPS WITH
COMMERCIAL BANKS AS DEALERS IN GOVERNMENT SECURITIES

A Transcription of the Discussion of
HON. ANDRES V. CASTILLO, Governor of the Central Bank
of the Philippines, Thursday, February 10, 1966

Mr. Roxas, Mr. Frenzel, Mr. Babst, ladies and gentlemen: First of all, I would like to thank the EDF for inviting us to this seminar this afternoon and for giving us an opportunity to participate in this discussion of a new adventure in private and public finance in this country. Our discussion today may lead to the organization of a banking and financial system more responsive to the needs not only of government but also of the entire economy as well.

The Central Bank is very much interested in a project like this. As evidence of this interest, we have signed a contract with Bancom to study for us the possibilities of developing a securities market in this country. This is just the beginning of what we hope will be a fruitful and useful relationship not only with Bancom but with similar organizations.

One of the media through which the Central Bank of the Philippines can control or influence the credit system of the country is a well-developed market for government securities. While the Charter outlines what the Central Bank should do to nurture open market operations, this function of the Central Bank has remained largely on paper up to this date. If there are open market operations of any sort, they run just one way. The Central Bank has been mainly buying and, to a certain extent, also selling government securities as an agent of the government. It does not sell securities of its own. And when we sell securities for the government it is not always a voluntary or a two-party transaction but perhaps we have to twist the arms of the managers of some financial institutions to buy these securities from us.

It is a well-known fact that it is the job of the Central Bank to maintain a responsive monetary system. We are supposed to guaranty the liquidity of the economy, and most especially of the banking system. This implies management of the monetary system in such a way that money shall

be available at all times to meet the needs and requirements of industry and trade. But it also implies that when a smaller volume of monetary circulation will suffice, excess purchasing power should be neutralized or sterilized.

The Central Bank - all central banks, for that matter - are given vast powers to discharge their responsibilities to the monetary system and to the country as a whole. Many of you are well-versed in the intricacies of finance and money and banking and I don't have to discuss the various measures which are at the disposal of the Central Bank for influencing money supply and therefore business activity in the country. But perhaps it might be well to enumerate them here again only for the sake of providing a proper perspective for our specific topic today.

Among the standard instruments at the disposal of central banks is the discount rate, a measure that has been very much debated in the United States since last December. Secondly, we have the reserve requirement which is possibly more potent than the discount rate in developing countries. Thirdly, we have open market operations to which we shall come later; and fourthly, according to our charter, we are supposed to engage in selective credit control.

In a developing country like ours the discount rate has been very ineffective as a means of controlling money supply and influencing the transactions between banks and their customers. In a country where there are many borrowers in spite of a high rate of interest, the first instrument will indeed be ineffective in regulating the volume of money and credit. Moreover, in the case of banks, if they have the money to lend, changing the discount rate would be a useless measure. In times when considerations of stability require credit control, changes in the rediscount rate have been complemented by the imposition of rediscount ceilings (restricting the amount of Central Bank credit to commercial banks) to insure maximum effectiveness. Together with the rediscount ceiling, we have relied heavily on the second instrument, the manipulation of the reserve requirement in regulating money supply and the volume of credit in this country.

At this stage, however, we feel that we have a better organized financial and banking system in the country so that we are ready to adopt a certain measure of sophistication. The time has come, we believe, for the Central Bank to

engage in open market operations as a more active rather than merely permissive means of influencing the volume of money and credit in the country.

For the past 17 years, since the Central Bank was organized in 1949, we have tried to develop an active government securities market in this country. We have a department in the Central Bank, the Securities Market Department, which was organized precisely to perform this job. We have tried our best to educate the public in dealing - in the buying and selling of government bonds; but in spite of our efforts, we have not quite succeeded in reaching a desirable stage where government securities could be bought and sold as a means of monetary control. If there were securities in the past that the government saw fit to issue, we tried to market the securities as best we could and to get them accepted by the economic community at large. We have employees in the Securities Market Department who go around the country telling the people what government bonds are and encouraging them to save part of their incomes by buying 4% R & D Bonds which still form the backbone of the securities market in this country. Despite such efforts we have not been able to drum up enough enthusiasm to influence the community to invest an increasing portion of their income in government securities. Today, with interest rates soaring to unheard of levels, a 4% bond may appear unattractive as a form of saving even in rural communities and in spite of the safety feature and other guarantees it carries. And it is for this reason perhaps why only the banks and the Central Bank are the main holders of this type of government security today.

Under Section 137 of our Charter, we issued ₦200,000,000 worth of R & D bonds, which were used up by 1951; but we have, as I said, kept them as a means of trying to influence the credit operations of our banking system. Banks have purchased them mostly, if not exclusively, for reserve purposes but not as an investment which could be counted upon to yield a return attractive to the stockholders. While we have issued almost all types of government securities which you would find in a highly developed country such as treasury bills, certificates of indebtedness, treasury notes and long-term bonds, they are merely fore-runners of what we should really trade in more actively in the years to come. Treasury bills have been issued -- for that matter, all types of government securities have been issued at fixed prices, at fixed rates of interest, and except for one issue these have

been bought by buyers showing different degrees of willingness. In most cases, we have had to use persuasion, or disguised threats, to make them invest in these government securities.

But to a central bank, it is really the treasury bill that should form the core of open market operations. This type of security should be well-known in the financial community and should be freely traded in as a means not only of investment, but as a means of influencing money supply and the credit operations of the financial institutions in this country.

Now what are the prerequisites to effective open market operations especially in a developing country like ours? First, to my mind, would be the availability of an adequate supply and variety of securities that should be freely traded. Secondly, there must be a flexible interest rate system which should respond not only to the type of security offered but also to the availability of funds for investment. And then the securities that are traded must not be fixed in price as they are today. Except for one issue -- the 7% government bond -- all the prices were fixed at par in the past. And even the first attempt to sell a security that should have been sold without any fixed price did not quite succeed in attaining that objective. A third requisite may be the development and growth of specialized institutions which would assume the risks of the market.

I need not go into the various techniques employed by different central banks to engage in automatic operations; but in most of them, specially in advanced countries, it is really the short-term public issue that is mostly traded and availed of. The treasury bill is really the most popular and the most extensively used type of security for open market operations. But, again, perhaps I might say that with the exception of about three or four countries, there is no such thing as open market operations of central banks. Besides the United States, Canada, England and possibly France and Germany, there are no other active centers where open market operations exist, as conceived in textbooks. Of course the United States is possibly the most active and its open market operations the most highly developed. But it does not mean that the treasury bill solely shall be traded in open market operations. All types of government securities should really be included in open market operations. But the bulk must be short-term government securities

or treasury bills; perhaps to a certain extent other certificates of indebtedness might also be traded.

There are different procedures in open market operations. In some centers, central banks deal with private intermediaries such as dealers, discount houses or brokers. This is the case in Canada and England and the United States. Private intermediaries who deal in these securities obtain their funds through short-term loans from banks. In addition, the market may also include private companies with excess funds who may wish to use them to purchase liquid but interest-yielding securities. Sometimes the Central Bank grants advances to be used in these transactions. In other cases, a sale of government securities carries a repurchase agreement by the Central Bank. Many central banks deal directly with commercial banks who become the principal agents of underwriters and securities dealers. In other countries, central banks deal with specialized public institutions. This holds true in Belgium where a public intermediary has been established by the Central Bank to deal in government securities. Certain features of this method might be considered in establishing an active market for government securities in the Philippines. Of course, I suppose the procedure that will be adopted will aim to develop a market by "feel" and will be directed towards determining the most fruitful and most effective means of drumming up enough interest in treasury bills and other government securities here.

Statements made by friends to the effect that the government securities market here has been inactive or rather very passive are quite generous. To be frank, there has been no such thing. One of the reasons why we have not been able to develop an effective market in government securities is because government issues have been limited almost exclusively to long-term bonds. Seventy-eight per cent of the outstanding government issues as of the end of 1965 are long-term bonds. Then there are fixed prices of government securities and as I previously mentioned, more than three-fourths of these also carry what we call Central Bank support. Any holder of these securities can always come to us when he needs the money and sell them to us.

Furthermore, the market has not been developed because, usually, the government is unable or unwilling (or both) to borrow at current rates of interest. As of the end of 1965, 69 per cent of outstanding issues carried interest rates of

4% and below. It is our objective to decrease this percentage and see that these securities are sold at current market prices. Moreover, government securities are not regularly issued at, say every 90 days or every year or some other fixed period. They are issued only when the government needs additional resources to meet its obligations rather than in response to the liquidity requirements of the economy. I believe it is about time that we adopt a more sophisticated system and develop a wider and deeper securities market here so that government issues can serve not only as a means of satisfying the financial requirements of the government but also as an instrument of monetary management.

The Bancom, together with its group of experts, has already submitted a preliminary report on its survey, and we are indeed gratified to learn that we can look towards a very promising future regarding the establishment of an active securities market, at least in Manila. In the light of this report the government, we hope, will try to re-examine the types of issues that will be made not only to raise the funds needed to meet current expenditures but also to maintain a viable credit system in this country. In anticipation of the issuance of treasury bills that will be actively traded in the open market, under the charter the Central Bank is authorized to issue its own bills which may take the place of treasury bills. With the implementation of the project that has been presented by Bancom, we hope that there will be no need to issue our own securities. And we also hope that in time the government will be able not only to acquire funds in anticipation of the collection of taxes and to issue bills to meet its obligations, but also perhaps to develop a wide variety of government securities that will be actively traded in the market. We expect Bancom to suggest to us methods and procedures of developing such a market and thus help maintain a higher liquidity position not only for the banking system but also for the entire financial system of this country.

Now, I submit myself to your tender mercies and hope to meet questions which I hope I can answer.

Thank you.

APPENDIX II

by

CHESTER BABST

The Importance of Secondary Reserves for
Commercial Banking and the Market
for Secondary Liquidity Instruments

THE IMPORTANCE OF SECONDARY RESERVES FOR COMMERCIAL
BANKING AND THE MARKET FOR SECONDARY LIQUIDITY INSTRUMENTS

By CHESTER G. BABST, Executive Vice-President
Pacific Banking Corporation
Thursday, February 10, 1966

1964 and 1965, in terms of liquidity position and reserve management, were amongst the most trying years of the post-war era. Even conservative bankers found the going rough at times, what with the ever-slowing down pace of collections, the dwindling over-all reserve position of banks, the continuing heavy pressure for credit accommodations from our clients and the seemingly low ceiling set by the IMF on the Central Bank's ability to increase its holdings of domestic assets annually. Minding the bank's reserve position became the manager's chief pre-occupation and in most banks, the next thirty minutes after 4:00 o'clock in the afternoon was busily spent in adjusting the bank's reserve position for the day via the call loan market or by the sale of bonds to the Central Bank. With the exception of about five or six banks, the rest, irrespective of size, made use of the call money market at one time or another, in varying lengths of time, to meet the reserve requirements. The figures released by the Accounting Department of the Central Bank from time to time on call loan transactions show that the volume increased substantially in 1965 as compared with 1964, when the call loan first came into

widespread use. Furthermore, the figures for 1965 alone disclosed that there was no let-up. On the other hand, the volume showed an upward trend in terms of number of transactions and amounts involved. The undoubtedly tight situation prevailing in the commercial banking sector which in turn severely restricted credit to the commercial, industrial and agricultural areas eventually caught the attention of the fiscal and monetary authorities so that between November of 1965 and early this year, several measures aimed at relieving tightness were adopted. Foremost of these, was the lifting of the 20% retention of export proceeds early in November and the recently approved Central Bank circulars cutting down the reserve requirements on Savings and Time Deposits and on Special Time Deposits on certain types of imports. Simultaneously, the rediscounting quotas of commercial banks with the Central Bank were increased. The lifting of the 20% retention on export proceeds does not infuse new funds into the monetary stream, it merely prevents the further sterilization of money. The reduction in the reserve requirements likewise does not provide new funds, but it does give the long suffering banks some breathing spell and an opportunity to adjust their reserve position. Only the increase in rediscount quotas will actually provide additional funds to enable the banks to strengthen their positions, but not a base for expanding their loan portfolios.

With the nightmarish experience that most of us had for almost 600 days, as a background, the importance of providing a second and third line of defense against reserve deficiency is sharply brought into focus. While all of us are aware of the importance of secondary and tertiary reserves, very few of us had the means at our disposal to build up these reserves to a satisfactory level. More over, even when we had the means, the investment field was quite limited. Prior to 1964, the only securities that could qualify as a secondary reserve for banks were Central Bank supported Government bonds. At that, many banks bought bonds not really to create secondary reserves, but to comply with certain primary reserve requirements where bonds were acceptable. In 1964, when the call money market came into widespread use, banks that had surplus funds to lend wittingly or unwittingly created for themselves first class secondary reserves meeting the test of liquidity.

According to classical writers, secondary reserves are understood to mean highly liquid earning assets that may be converted into cash with little or no delay and with practically no loss. There are two ways of effecting conversion into cash - first, by waiting until maturity and second, by selling. Assets with short maturity are said to possess liquidity, while those that have to be sold to realize cash possess marketability. Liquidity and/or

marketability are therefore considered the test of good secondary reserves.

In our present stage of monetary managements, do we have any assets that can meet the test of either

1. liquidity or marketability? Call loans to other banks by their very nature have liquidity since they are payable on demand. What about Central Bank supported bonds? Since these assets mature anywhere from five to ten years depending on when they were issued, they cannot be said to have liquidity. However, since the Central Bank is committed to repurchase these bonds on demand, they have marketability. In practice, however, this marketability may at times suffer, when the Central Bank, notwithstanding its commitment to purchase, may find itself unable to do so because its current ceiling for increasing its domestic assets may have been reached or the margin of allowance very little. One distinct advantage to bondholders, however, is the fact that provided the Central Bank were in a position to buy, the holder suffers no money loss no matter how large the offering. On the other hand, if the Central Bank were not the buyer, a large offering by a group of holders would tend to depress prices. Of the other types of assets or securities normally considered as good secondary reserves in other countries, we have very little of them since we do not have an acceptance market or a commercial paper or bill market in active operation.

Even our open money market is still conducted on the personal rather than on the impersonal basis on which the more sophisticated money markets operate. They say that adversity spawns improvisations. During the difficult days of 1965, many of us have, for all intents and purposes, handled some of our assets as secondary reserves. Examples of these are import bills under trust receipts and other papers qualified under section 87 of Rep. Act 265, to the extent of our unutilized rediscounting quota with the Central Bank, unmatured export bills to the extent that they may be sold or discounted with our foreign correspondents and in some instances, balances in foreign currency with our correspondents, in excess of normal working requirements.

Most of us are agreed that the tight conditions that prevailed from 1964 to 1965 will continue well into 1966, perhaps not up to the same degree or intensity, but nevertheless tight. Moreover, even under the easy money conditions of 1962-1963, the banks found themselves in tight positions at certain times of the year on account of cyclical or seasonal demands for credit accompanied by heavy withdrawal of deposits. Under the circumstances, it seem that the proper thing to do would be for us to take a good hard look at our loan and investment portfolios with a view to increasing our holdings of assets and securities that could easily meet the requirements of dependable secondary reserves. Some of our current

thinking on the subject may have to be changed altogether. To start with, we should find ways and means to develop a market for bills, acceptances and other securities, where the Central Bank is not the only buyer. This will mean the establishment of acceptance houses, commercial paper dealers, money and note brokers, etc. in addition to commercial banks, some of which shall act as authorized dealers, and the Central Bank. Our present practice of issuing authorities to Purchase and Pay likewise calling for drafts drawn on the buyer should be changed in favor of the true letter of credit calling for drafts drawn on the issuing bank. This will hasten the development of an acceptance market and provide banks with readily marketable assets. The Central Bank may also have to amend some of their existing regulations, specially those pertaining to the classification of loans into certain priorities and the provision of reserve cover on certain liabilities expressed in foreign currency. Of course, new circulars may have to be issued governing the amount of acceptances or bills that a local bank may hold in relation to its total capital or net worth. The Securities Market Department of the Central Bank should play a more active role to give full effect to its part in developing and maintaining an open market for the purchase and sale of the Government securities mentioned in Sections 97 and 98 of the Central Bank Act. The existence of an active open market will provide a sensitive mechanism for controlling

the ebb and flow of money supply without the Central Bank's having to resort to the issuance of restrictive and at times oppressive circulars and memoranda. On their part, the commercial banks can avoid or minimize their too much dependence on the rediscount window for assistance in times of stress. Even the Government could avail of the facilities of the market to borrow non-expansionary funds from the public instead of borrowing directly from the Central Bank with its concomitant undesirable side effects.

On the assumption that we have an acceptance and bills market in operation, thus making it possible for us to really build up secondary reserves, what factors should be considered? What ratio should the secondary reserves bear to the total deposit and other demand liabilities of the bank? What would be the position of the secondary reserve to the bank's primary reserves? To its income potential?

There are no regulations prescribing the creation of secondary reserves at present and in most other countries, rules and regulations govern only legal or primary reserves. The building up of secondary reserves is at the discretion of management. The more conservative the management, the more ample the secondary reserves. In considering the adequacy of secondary reserves, special attention must be given to the composition and movements of the bank's deposit

liabilities. Generally, where a bank has more demand deposits, a deeper secondary reserve is needed. Moreover, if the bulk of its demand deposits are made up of large accounts, the movements and fluctuations are apt to be wider. Our experience show that demand deposits of merchants, specially the Chinese are very active thus making it rather difficult to depend on a certain predetermined level of primary reserves only. Even their savings account are at times operated as actively as demand deposits. Branch deposits generally are more stable than those domiciled in the metropolitan area. Seasonal factors, like tax payment periods, export sugar buying periods, tobacco buying and selling seasons, pre-Christmas and pre-school buying periods and the like will exercise a lot of influence on the amount of secondary reserves that a bank should carry to meet the drain that generally come during these seasons or periods. Unit banks are more vulnerable to reserve fluctuations than banks with a network of branches. Branch banking permits the shifting of funds from places where they are not needed to the home office or to the branch requiring them. No definite ratios can be prescribed. Every bank shall determine for itself what would be adequate for its needs.

When the legal reserve requirement is low, it is generally safer to increase the secondary reserves since

a rather larger-than-expected fluctuation in deposits could wipe out the entire primary reserve line.

While conservatism has its virtues, extreme conservatism has its drawbacks. In considering what would be an adequate secondary reserve position, it is well to bear in mind that the assets that usually go into building these reserves are generally of the low-income yield variety, since the risks involved are minimal. In other words, a very heavy secondary reserve position could adversely affect the income potential of the bank.

We cannot over-emphasize the importance of maintaining an adequate secondary reserve. The lessons of 1965 are still very fresh and even now we are not even certain that the worst is over. The temporary respite that we gained as a result of the series of recently issued Central Bank circulars reducing our legal reserve requirements may soon disappear and we shall be back at where we started with the banking system operating at even lower levels of reserves.

The absence of a deep line of secondary reserves in the system led to a number of undesirable results. Our free reserves, meaning our reserves in excess of the legal requirements, over money borrowed quickly evaporated and soon most banks were able to meet their primary reserve needs only by borrowing from the Central Bank or other banks, here and abroad. The ensuing struggle amongst banks and other

financial institutions for funds led to unethical practices and forced the cost of money up - even beyond reasonable limits. It also led the lowering in the standards of banking practices and the consequent drop in the standing of Philippine banks abroad.

After having determined the level, at which the secondary reserve is to be built up, the next matter to consider would be the composition of the reserve. As stated earlier, the liquidity and/or marketability of the security will exercise a very decisive factor. Assets possessing liquidity will normally have priority over those that can be converted to cash only by sale. Holders of securities with short maturities can schedule their needs with more accuracy and with no less of income. An excellent plan would be to acquire short term securities with staggered maturities. While this may not be possible at the moment, considering that the bulk of the Central Bank-supported bonds mature beyond one year, the contemplated creation of a Bills market where short term Treasury Bills shall be floated might provide first class secondary reserve investments, with the liquidity and marketability feature. Where an efficient bills market is in operation, it is possible for any of us to acquire high grade government obligations with payment dates coinciding with our need for money. Of course, the same market could provide us with funds even before maturity, but with less income than if we held the

asset until due date. The securities in this market need not be confined to treasury bills alone. Provided that we, in our foreign trade financing activities, give rise to the emergence of drafts drawn under letters of credit on the issuing banks, acceptances could be bought and sold in that market thus providing us with another source of funds and secondary reserve investments of the highest quality. Likewise, this market could provide the outlet for high-grade short term notes as well as of investment possibilities for first class corporate organizations desiring funds or income for short period of time.

Since our motive in investing in high grade securities for secondary reserve purposes will be to provide liquidity when needed, the income angle must not be a very decisive factor in our over-all investment policy. It will have some bearing, however, in the choice of security, since all other conditions being equal, we would buy the offering yielding the higher returns.

In the meantime, pending the establishment of the bills market, the only outlet of investment for us for secondary reserve would be the call money market and of course the Central Bank-supported government bonds.

APPENDIX III

by

HERMAN FRENZEL

The Mechanics and Techniques of
Trading in Government Securities

**THE MECHANICS AND TECHNIQUES OF TRADING
IN GOVERNMENT SECURITIES**

(Discussion during the seminar on Government Securities,
Madrid Restaurant, February 10, 1966)

by

HERMAN E. FRENZEL
Vice-President, Sales & Trading
U.S. Government Securities Division
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Mr. Castillo, fellow speakers, fellow bankers, ladies and gentlemen:

It's good to be here. This for me is the culmination of four weeks in Manila, a culmination of months of study and work back home in New York, on a project which I have a love for, have a feeling for, and that has been my life's work at Bankers Trust Company in New York. I have been employed in the Bond Department for the last 35 years as board boy, trader, salesman, sales manager and right up and down the line, so I can say this is the topic which I have a great feeling for, a great love for, and it is a delight to me to bring my ideas before you.

To set a pattern for more technical details, I'd like to review very briefly some of the objectives of a money market. What do we hope to achieve in establishing a money market? Well, I've listed five or six items here.

Number one, we want to harness cash flow. Corporations generate hot money: 3-day money, 17-day money, 22-day money which can be put effectively to use in a short-term money market.

The second thing we'd like to do is employ some of the excess reserves of the banks. Now, admittedly, on occasion, there is no such thing as excess reserves. However, on a Friday, there's invariably some money that could be invested over the weekend. Some only for short spans -- 15-day, 18-day, 22-day, 91-day periods, but the funds are available for employment at a rate.

The third thing we want to create is market liquidity. We want to create an instrument which is money good on the spot, which has a free market, is quoted regularly, that each investor has ready access to.

Another point, we want to establish a key rate. In the U.S., the key rate is the 90-day bill rate. Other rates are geared to this. Of course, from a Central Bank view, the key rate is the discount rate, and private loans and other market loans are geared from that level.

What we also want to do is to provide inventory in the market. By inventory we mean: something widely held; something that can be bought and sold; something that can be used between dealers to exchange positions and between dealers to trade positions; something for buyers and sellers to create a liquid key item.

Another objective of the money market is to enable the Central Bank to perform its open market operations effectively. I have taken great care to read the Central Bank Act. It is quite explicit in its desire to use the open market for operations in the control of the credit supply. There is also a section on the securities stabilization fund, with its role to establish an effective orderly market. We need material in the market for these funds to operate. A very important function of a money market is to create a market for the Secretary of Finance so he can gauge his borrowing and his refunding needs effectively. It must be disheartening to a Secretary of Finance to be faced suddenly with a demand for £50,000,000 to buy palay and discover that he has no market that he can gauge an effective rate against. This is an attempt to give him a rate that he might use to do his borrowing, in the open market or by whatever other means that may be available to him.

Over and above all these considerations, you might say what we want to do is provide private investors with a marketable instrument. There are many insurance companies, savings banks, individual trust funds which have short-term funds. They want to know how they can trade such funds, get in and out quickly, and have ready cash.

When I view a money market, I view it from a practical approach. And if I were to set up objectives for building up a money market, these would be my reasons.

Going to another step, what is a money market dependent upon? This would be the next logical step, and first and foremost is the fact that there should be a flow of short-term funds seeking temporary investments. These short-term funds can come from any source you want. Again, the insurance company, the corporation, the bank, I repeat the same names. They do have funds on occasion. This would give you your flow of funds.

Of course the confidence of the investor and the liquidity of his investment has to be paramount. He buys an 18-day bill. At the end of 18 days he wants to know if the money is there. He gets it at maturity and he had an 18-day investment. But if it goes to 21 days, 22 days, he has to refigure his entire outlay of funds, change his investment rate, and this naturally kills him as far as the market is concerned.

A third need for the development of a money market is a network of dealers that are able to trade and to expand the market through its sales organization. Later on I'll discuss in more detail how we have outlined the dealers organization; but this is an essential ingredient in the entire development of the money market.

Additionally, there is need for an accurate, regular dissemination of quotations, financial reports, and news which will aid in gauging the market in terms of free market quotations. Dealers work on the basis of outstanding news. What is its impact on the market, what will make it go up, what will make it go down. We need good reporting, we need good factual information so that we can make market decisions.

The money market will also need accurate dealer reports to the Central Bank on their open market operations, so that the Central Bank would be aware of the ebb and flow of funds, aware of the needs of the market, aware of the tone of the market, the tenor, the activity in the market, the type of customers that are participating in the market. This will be the function of the dealer organization, keeping in touch with the open-market trading desks, and informing them such information of course will not divulge the name of customer. This is always sacrosanct between dealers and is always sacrosanct between the bank or the dealer and the Central Bank. But we give types of name or types of people. We see insurance companies in as sellers, we see insurance companies in as buyers. We see banks very heavily in as sellers -- whatever it might be. But never by name, because this is not the function of the dealer. It is one of the ethics of the business that is inviolable.

Before anything else -- I possibly should have mentioned this first -- the open market depends on availability of a short-term medium which meets all these needs. What we are proposing is a 91-day bill, initially. I say initially advisedly because this is only the forerunner of a much larger plan, as I will explain more thoroughly later.

These then are money market objectives, and what the development of the money market is dependent upon.

What kind of a market do you have in Manila today? As far as I can establish, there are four related markets.

There is an interbank market. Now here rates have been quoted -- 6%, 7% -- someone mentioned 9%. I understand that at times, a man with money even with this kind of rates, can't sell it because he has his own group of banks that he sells to or buys from. There are two or three groups of banks that do business among themselves that don't cross into another group. This of course is fertile field for an anonymous instrument, that is, money. The interbank market then has developed rapidly. It was adopted, I understand, in mid '63 and in 1964 there were some 1,500 trades involving some 900 millions of pesos; in 1965, 3,500 trades with just under two billions of pesos traded. These are meaningful figures, big figures, and certainly shows that there is an ebb and flow, there is a desire for short-term money or short-term investments.

The second market, which Chester touched on, is the acceptance market. Here, again, in the sense of the word or in the adopted sense of a sophisticated market, this is not truly an acceptance market. But I think possibly some of those changes that have been suggested if they come about, could make for a ready acceptance market and a tradeable market. That could be another instrument in the short-term market. The rates that have been quoted to me: 30 days, 7 to 9 1/4; 180 days, 8 1/2 to 10 1/2. I don't know whether this agrees with your particular functions, your particular ideas.

Another market has been developing that you may not be entirely familiar with. It is what we call the inter-company market. Here, it is a group of companies that have gotten together and said, "Well fine, we will make funds available to other companies of like stature if they will reveal their statements on a regular basis. If they have credit-ability -- why it can be done." They are in the inter-company market. The 7-day rate is at bid at 7-7 1/4%, offered at 8 5/8 - 9 5/8%. In the 30-day level, it's an 8 1/8% bid to 9 3/4% offered. These are phenomenal differences. When I view the New York Market again I see quotes two basis points apart. "We will trade for 4.80% bid, 4.78% offered for one year paper." Here in the finance paper market, I understand, you name your rate. Six months, 12% with 30 days call; one year, 13-14%. But don't ask me for a statement so frequently. So this again is a type of instrument. But at the same time, you get what you ask for. If you want a high rate you're putting your money on the table for risk. These are then my introductory remarks to my first presentation of a 91-day bill.

A 91-day treasury bill is a special charm for us because what we are trying to do on a long range plan is introduce a yield curve. This can be done by establishing a small yield curve at the 0 to 91-day level, expanding it at a later date when it is acceptable, and expanding to one year, picking it up in future years right on down the line until we have established the curve from 0 to 26 years. This is a big order; but it can be done. It is done daily in sophisticated markets.

I keep coming to this word "sophisticated market" because in my travels around Manila, I have talked to bankers, a number of insurance company executives, corporate executives, and believe me, bankers in Manila are the same as they are in New Orleans, or Memphis, or in Chicago. They know their rates, they know what the value of a basis point is. And this is sophistication to me. So you have the ingredient of sophistication here in Manila. It is a question then of getting an intermediary or a jelling point that can bring you all together and give you some rules to or a guide stick to go by. This again is the reason for our suggestion of a 91-day bill.

We have presented this suggestion to the Monetary Board through Governor Castillo. It's awaiting decision so to speak, but if it doesn't come soon, why I would expect that sooner or later, it will come. It will come three months from now, six months from now, a year from now but whenever it does come, it could very easily be in this form.

I would like to go with you through the mechanics of a 91-day bill offering. You have Specimen No. 1. At the direction of the Secretary of Finance, who goes to the Central Bank, says "We need P 5 million, will you issue this bill?" And the offering then takes the form of a directive or circular from the Central Bank which delineates all the rules, regulations and points that must be had in public welfare.

What we are suggesting here is a 5 million peso, 91-day bill, dated May 2nd, due August 1st.

You will notice that the date at the right hand corner of the Circular is April 18th. What we've done is we've selected Mondays. Monday is April 18th; the circular is out. It says, we invite you to pay on May 2nd for anything you bid for. It will be due August 1st. And the various points of necessary procedure are outlined.

You will notice that tenders will be received at the Central Bank of the Philippines up to the closing hour of 12 o'clock noon on April 25th,

We have suggested to the Central Bank that a strict time schedule be enforced. I might point out that in the New York market, we at Bankers Trust Company are but two short blocks from the Federal Reserve Bank. We have a 1:30 deadline, we have a messenger that goes to a drugstore right on the corner of the Federal Reserve Bank. He is in a phone booth there and we give him our bids by phone because we want our bids in no sooner than 1:29 or 1:29 1/2. It's this sharp in New York. And believe me, if you stand on Liberty St. in New York, why, you can get trampled to death with the messengers coming up between 1:25 to 1:30 to get that deadline at the Federal Reserve Bank. This is the type of procedure we're suggesting here. Not that we need a running messenger that quickly, but that we need a strict time procedure -- 12 o'clock, and that's it.

So this is carefully delineated in the offering circular. It makes the necessary provisions, tells you how to bid, or if not how to bid, at least how to put your bid in.

A question was raised here on the income derived from treasury bills, whether interest gained from the sale is taxable or whether the disposition of the bill has exemptions. Treasury bills are taxable in the New York market. I am not sure whether tax exemption will be entirely acceptable to the Central Bank here, or if it is entirely within the province of current income tax laws. But as far as we can read, it is taxable.

What we are frankly suggesting is that income derived from this should be subject to tax. Don't hold up your hands in horror, because this is a free market instrument. No one says you have to come in and buy it, no one says you have to come in and sell it. However, to different people, taxes mean different things. Therefore, those who can afford to buy this and pay their tax are apt to bid a little more aggressively; we welcome it. Those who feel that the taxes might be too onerous, they might forego it.

Another reason we do this is because we want the rate structure to be competitive. We feel that -- if you have other instruments that you're paying taxes on, why should this be non-competitive for yet another unknown inch of the bidding, so to speak.

Again, this is the decision the Central Bank and the Secretary of Finance will have to make -- as to whether they want to make this tax-exempt, or whether they legally can.

This then, is the offering circular of the treasury bill. It's clear-cut. It's easy enough. I'd like to go now to Table No. 1. As part of the offering circular, we are suggesting that the Central Bank give out a range of yields with corresponding prices, with 91 days to maturity. This will set the tone of the bidding range, so to speak. This is not mandatory. If you want the bid more there is nothing that says you can't bid 6% on this. Under other conditions you can bid 7 1/4. However, as part of the information, so to speak, we are suggesting that a range of about 50 basis points somewhere in a rather narrow point of where bids might be acceptable be adopted.

I might say that I adopted this particular scale or started constructing this idea when I was in New York looking at the rates here, because at that time I was thinking of possibly a 6.75% rate on bills.

Since my exposure here, I'll be quite frank in saying that my ideas are much closer to 6%; and under present market conditions I would suspect that a bill could be sold roughly in the area of 6-6 1/4% without too much difficulty. Or perhaps this may shock you and, perhaps, the money won't just be there. But this is a private opinion and it is open to discussion later, and I would be glad to hear some comments on it at the end of the discussion.

But certainly the Secretary of Finance is interested in borrowing cheaply. At the same time he does have political motivations, so to speak, for this; it is up to him as a guardian of Finance, as a representative of the taxpayers, to borrow as cheaply as possible. He may refuse bids that are up too high. But the range of yields with corresponding prices is an indication and of course will vary with money market conditions. We may find one week it will be 5.75% to 6 1/4% as an aid to allowing the investor to make up his mind. Again, we are not saying in any way that this is mandatory, or that this is the mandatory range.

The bidding forms -- No. 2 especially is a fairly complete document adapted from normal practice, subject to very careful review by the Central Bank as to detail and the Secretary of Finance to see that it lives up to what they would like.

You will notice on the left hand side it says "Competitive Tender." Well, if you use your table on the range of bids, that gives you an idea of what you might like to bid. If you wanted to bid in, let us say, around 6.50 level, 6.50 level to 6.55 level, why then you would pick an item in there. Let us take 6.522 which would read 98.378. Fine,

you put in a maturity value, you want to buy ₱100,000, ₱200,000, ₱500,000, a million pesos. Put in your bid price 98.378 -- and this is your tender.

You will see on the right hand side non-competitive tenders. In the case of non-competitive tenders, this is for the non-sophisticated buyer. This is for the small trust, the small individual who wants to buy some of these, but is not sophisticated enough and is not in touch with the market sufficiently; at the same time he does want to put his money to work for 91 days. He can put that in for the maturity value he desires up to ₱50,000 and get a non-competitive rate which is the average of all the competitive rates that are accepted. Again, from our New York experience, we find that the non-competitive tenders amount to approximately 10% to 15% of the total, so that on a 5 million peso offering we would assume that perhaps up to about half a million would be awarded on a non-competitive basis. This, of course, comes off the top so that those who have competitive bids in turn would be awarded only 4.5 million or 4.6 million or 4.3 million or 4.8 million -- whatever is necessary.

You'll also notice that you're able to designate the types of pieces -- you have common denominations of 1,000, 5,000, 10,000, 50,000, and 100,000 peso pieces. You are asked to designate, how you want them delivered, how payment will be made. If it's for your own account, give your name as the bidder. Again, this is to avoid duplication of non-competitive bids, also to provide the Central Bank with some knowledge of the types of customers that are buying. This then is your announcement and your tender form.

The next procedure that will be followed is an array of the bids. If you turn to Table 2, you will find it designates the array of bids. This is a simple designation by price, highest price first, what they were. For instance, Bank A, and Corporation A, both bid 98.384, a total of 150 and 200 thousand pesos, they got an award in full; and right on down the scale you will find that all those awards down through 98.376 are awarded 100%. You'll notice down towards the bottom, non-competitive at 98.377, ₱600,000. So we're looking for an award of ₱4.4 million. The ₱4.4 million comes from the top and when we get to 98.375 we find a total of almost 4 million at that figure; but only 20% of those were awarded. This is to fill out the ₱4.4 million plus the ₱600,000 to give you a total of ₱5 million. So that this is what we call the cut-off point, the cut-off point being the 98.375.

We turn at the moment, to specimen No. 4. Our specimen No. 4 would be released by the Department of Finance and would show what was the high bid, what was the low bid, what was the average bid. The amount of tender that was accepted at the low point, 20%. And it gives the total application and the total tenders. In this case, total application was \$12.6 million. Of course, only \$5 million were accepted.

This then is the procedure, the circulars, tenders and the acceptance. Forms 3A and 3B recite the acceptance or the rejection of your tender. These forms will be handled and sent out by the Central Bank to indicate formally whether you did or did not receive the bills. Of course, we would hope that the press release, having been released immediately after the auction would appear in the papers the following morning. We would not even need this mail advice, but it is the formal notice that you did or did not get the bills.

This is an easy bidding procedure, and of course culminates with Specimen Number 5, which is the treasury bill itself which is issued on payment days. In this case, you recall, we have this original circular on April 18th. The auction was on April 25th, the payment on May 2nd. So that Specimen 5 would be the issuance of the treasury bill against your payment, in accordance with the delivery instruction you give at the time of the tender.

Going on a little further, I would like to present to you the calendar, of what could be accomplished over a period of time in the way of 91-day treasury bills. Certainly 5 million doesn't begin to open up a money market. I can visualize when the Central Bank on occasion will have to put in 10 million, 15 million, 20 million to ease credit or take out 15 million, 20 million or more at periods of stress, so that we have to expend beyond just \$5 million.

What we are proposing then, in Table Number 3, is a tentative calendar. You'll notice, first announcement day, April 18th with the actual tenders to be given in on April 25th. The award announcements will be on the papers on April 26th, issue date May 2nd, due date August 1st. Also, two weeks after the announcement date, or May 2nd, the same cycle is repeated. This goes on for 13 weeks. So at the end of 13 weeks, you've had seven auctions for 35 million and you have maturities on August 1st, 15th, 29th right down into that quarters. The second cycle is confronted with the problem of refunding, so to speak, the first cycle; so that on July 18th, in the second cycle, you have

really a roll over or refunding of the first one that was issued on August 1st. There is no exchange privilege. You are paid at maturity. If you want new bills, you come in and buy in the auction at the going price.

This again is an element of the free market. You will notice then that we picked up the odd dates where there is no maturity on August 8th to August 22; September 5th so that in the second quarter of the cycle, there will be issued six more bills. Seven in the first quarter, six in the second quarter. In this way, we established a 13-bill cycle with maturities every seven days. Five million each, total 65 million. This has been given very careful study. Is the market large enough? Can it absorb this? What is the timing? We have had objections on the timing, the date of April 18th, May 2nd has been criticized, as being a tax date. But all the circumstances seem to jell and come to this as a logical good move.

Number 1 a period of training, a period of thought has to go into this, between now and April 18th we're faced with heavy taxes -- tax payments. Banks will be very short on April 15. However, possibly by May 2nd when they have to pay for this, they can begin to see their way clear a little bit and will enter the market. Corporations may begin to get out of their tight squeeze. So that we are aiming some of these earlier dates at a July 15th maturity, so we hope that people will buy in the auction with the thought of liquidating on July 15th in the open market or entering repurchase agreements. (These are terms I will explain in a moment.) So that the funds will be available on July 15th for tax payments.

Again, this cycle has received a lot of thought. We want to build up a short term medium in decent size that can be used, that can provide a market. There is no sense in going along with one million or so and then find that it is sold up by 2 or 3 buyers and that it is the end of it. So this is the initial step in the introduction of a 91-day treasury bill.

I have made repeated reference to a dealer organization. This also has received careful thought. What we are proposing is that a national association of Philippine government securities dealers must be established. Two types of dealers will be in this group. There will be a bank dealers and the non-bank dealers. There will be very rigid requirements for membership among the non-bank dealers.

One of the proposals that is being made is that a minimum of a million pesos of capital be required. Additionally, we are proposing that any recognized dealer must have a trading desk, trading personnel, supervisory management and a sales organization. These are essential ingredients of a dealer establishment.

In the case of the banks, what we are proposing is that any bank that wants to become a dealer set up a government securities department, again with the view of operating in this market, servicing its customers, and making a market. Making a market can be trying at times, can be unprofitable at times, can be profitable at times. This depends upon the skill of the trading personnel, and upon the skill of the management for seeing economic trends, keeping positions low in the periods of stress, expanding their positions when it looks as though money will ease. This is the free flow of securities.

This association will have by-laws, dues, liaison with the open market community. Again, I say these proposals have been made. Whether they are acceptable or not I don't know, but I will be hopeful that they will be accepted and that this kind of a market could be created.

How does a dealer finance himself? I'm talking about a million pesos which is actually a very modest sum. At the New York market each day they trade between one-and-a-half billion dollars and two-and-a-half billion dollars of securities. There are 21 dealers, seven are bank dealers and 14 are non-bank dealers. Some of the names you've heard, names like Solomon, Discount Corp., these are dealers in government securities. Some of the banks, Bankers Trust Company, First National City, Morgan Guaranty Trust Company and others. There are several banks in Chicago, one on the West Coast now.

These dealers, as I say, trade between a billion-and-a-half and two-and-a-half to three billions of dollars of securities each day. In our own organization, if we don't trade approximately 150 to 200 million dollars in the government securities market, it's been a poor day. I have traders with authority to make commitments up to 20 million dollars on any one trade. I have salesmen who, if they don't produce between 10 and 15 million dollars of trades in a day they haven't done their job. The salesman has to be on the phone. He is in contact with his banks, with his corporations, with his municipalities. They make between 30 and 50 contacts every day, by telephone, by personal contacts. And this is the life-blood of a dealer market: activity, volume. I would suspect that the dealers that get into this

business for the first few years will find it very tough sliding. There won't just be enough volume, so to speak, to warrant it. However, this has to be viewed from a long range view point, something that will build up, over time, and something that can be profitable over a period of time. Again citing our own record in Bankers Trust -- we have been in the business since 1917 -- I can recall seeing only one loss year and that was in 1947 when we got the so-called "Christmas present." When on Christmas Eve they changed the discount rate rather drastically, the dealers were caught with long positions and the inventory at the end of the year wiped out the whole year's profit. This is typical, we were asleep, or maybe I should say our Central Bank did not give us fair warning.

How do dealers finance their positions? Again we refer to how New York dealers do it. By source of funds, about 47% of the funds comes from banks. About 40% comes from non-bank financial institutions. Only 3% comes from the Federal Reserve Bank in the dealer market in New York, and others about 7% or 8%. This is the source of funds. By type of investments, here, I come up again with this magic word -- repurchases agreements. I will take some time and explain it in a moment. Repurchase agreements account for 63% of the dealer financing in the market.

I am talking in terms of a market that changes around two billions of dollars to three billions of dollars every day, and the dealers positions can be two-and-one-half to four billions of dollars on a commitment basis. So this is again big business. Big bargains can be produced in a sophisticated market. Repurchase agreements on short dates (by short dates we mean anything in 15 days) accounts for 37% of the financing, and 26% is done in long term repurchase agreements. Collateral loans and use of their own basic funds account for 37% of dealer financing.

What do you mean by a repurchase? I might just as well explain that term at the moment. Well, let us take a big order company in the U.S. that has commitments of some two billions of taxes every year, a billion-and-a-half to two billions of dividend payments every year, or a large public utility like AT & T that has four dates they must meet every year for dividends, four dates they must meet for taxes. This can run, again, anywhere from 200 millions to 500 millions of dollars on those particular dates. This is nothing new, you have corporations -- takes off a few zeros and you have the same applicability here.

A dealer with a position will go to General Motors or Chrysler and if they have temporarily idle funds, he will want to do a repurchase

with them. We will buy a six-month bill, let's say at 4.80% in a six-month bill market. We go to General Motors, we say, "What are your needs?" They say, "Well, we haven't the need for money, we have money now, we have to meet commitments two months from now. What kind of rate will you give?" "We give you a 4.50%, a 4.60%." This is something that will finance our position that we paid at 4.80% for a six-month bill. Two months later, we liquidate this as a four-month bill, or we take it back into position as a four-month bill; and in turn we had our ride, we've had 20 basis points to 30 basis points working for us for two months.

Of course, we infer into this the rates in the market. There's no sense in buying in these bills at 4.80% hoping that you can get out two months later, and suddenly discovering that the Federal Reserve has changed the rediscount rate to 5 1/4%.

This happens and happens regularly. As a matter of fact, this has been happening to us quite a while in a New York market. But we're still in business and we still come back for more, because sooner or later we know the worm will turn, sooner or later we will be position-right at the right time.

Just to give you an idea on this positioning again, a dealer such as ourselves would have as much as a hundred million committed at any one time or we're budgeted for that kind of a figure. Top bank management says, here's a hundred million, play around with that in the bill market, see if you can come out with something more than a basic bill rate. And our position may go to a minus 40 or 50 million. We may even be extremely short of the market, up to perhaps a quarter of a billion dollars. There is never such a thing in a dealer's position as a normal position; it is always fluctuating because of supply, because of demand, because of market factors.

One can appreciate that a dealer builds his volume on leverage. If he had committed himself for \$4-million, he would hope to get some leverage. If he were just to invest his own capital funds, this would make for a narrow market. And he could not take care of the ebb and flow with just a million pesos of position. I would estimate that with sufficient leverage, as few as three non-bank dealers with a million each could get enough leverage to support a position of between \$40 and \$50 million.

This is a tremendous figure. I'm thinking right now in terms of a 10-to-1 leverage on capital funds. This would mean a 5% margin. If we come into a bank and say, "I'll sell you a million of my treasury bills, I'll pick them up 15 days from now. Give me your rates." This gives you your 5% margin. It gives you, first, the 5% margin; second, the commitment against the dealer, third, ultimate liquidity through maturity at the worst, whether it's the 91-day or 87-day or 28-day bill which was financed. But this would be the leverage that would be necessary as we deal it, in order for the dealer to make a meaningful market so that his capital funds can be a bulwark in the ebb and flow of the market. Thus, a dealer's capital itself is the first thing that he puts up on the line when he finances his position. This is easy enough.

Number 2, he has what we call day clearances. We would hope to establish with a central bank -- not with the Central Bank but with a bank, possibly the Philippine National Bank, a central clearance facility that would ease the shifting around of securities through the streets. It would facilitate the dealer to dealer function so that, if we at Bancom subscribed to and got perhaps a million or a million-and-a-half of bills, we'd say, "Fine, deliver them to the PNB." Then we would instruct PNB to deliver 250 thousand to this insurance company, 100 thousand to this bank, 300 thousand to whatever it might be, and retain the rest of seven or eight hundred thousand for further instructions. In this way if we could create a central clearance system. It facilitates things.

I might say that in New York, we don't have this, but the Federal Reserve Bank right now is putting in computer systems so that it can be done by the Federal Bank itself. And here again they hope to be able to net out. I might buy a million from Haji, sell a half a million to Willie, and 250 more in off the end table so that the PNB would take the delivery for me and make my off-setting deliveries, and in turn I'd have what I call day clearance. I would not have to put up any money that date to clear this. This is again an amplification of a dealer's capital. It requires no capital but it does get the facility. Of course, arrangements will have to be worked out by the association of government dealers with the PNB to see if this can be done.

We would need split-second timing. It might require the institution of a new department of capable people that can run like the devil because we may have to make deliveries at 4 o'clock in the afternoon against the clearance hour. Again, in New York, we have an 11 o'clock clearance, so it makes it relatively easy for the dealers to do business from 11 o'clock to about 2:30 to 3 o'clock. Now if we start trying to take care of you, to accommodate you at 4 o'clock in the afternoon, it is going to need a pretty efficient system set-up, but it is a simple system and it can be done. This is day clearance in dealer financing.

The third way a dealer finances his position is through corporate repurchases, both short term and long term. I illustrated that with AT & T and GM in the New York market. It can be equally applicable here in the Manila market, to your insurance companies, your corporations, that have hot short-term money they don't know what to do with other than keep in the banks. And I'm a banker, so I defend your right to have it. But corporations increasingly are becoming what we call O-I conscious. They know their 64's, they know their 32nds, they know their basic points. Management associations are sending out reams of materials telling them how to take advantage of their cash flow, how to study their cash flow, how to squeeze every last nickel out of investing it. So that we as dealers would go to the corporations, on a regular basis, and solicit them. "How much money do you have, for how long, I want to put it to work for you." This would be a prime point of reference for us in financing. Here again it would be a question of working our margins. Again we would assume a 5% margin although strangely enough in the New York market we find that the corporations are much more lenient and we've even had so-called negative repurchases. By this I mean we would give them a bill which is worth 98.9 or .7 or something and they give you a million dollars. This is, strangely enough you might say, margin in reverse by about .01. But New York banks basically require 1% on short-term securities as a margin for repurchases, and for that matter a margin of 1% for loans on short-term securities.

So when I talk 5%, I'm being rather generous. Again, this comes in the guise of repurchases. So that there is no loan limitation. In my conversations with banks the question has been raised:

How about the 80% limitation, the 20% margin needed? Well, if we can't make loans we will make repurchases. And repurchases are straight sales to you. Your material for the period of 17-days -- you sell them back to me at end of that period. If you had to make a statement during that period for your securities, they show up in your statement as part of your assets. I might say that repurchases in all the banks in New York are used as a means of putting cash to work over statement periods. It's a desirable thing to show that you have your money working instead of having cash. So that it's a method of, you might say, bolstering your statement with earning assets. These then are corporation repurchases and similarly the banks through repurchases and loans also finance the dealer's position.

We hope to be able to establish loan limits with banks, by banking standards, putting up collateral; however, these loan limits would have to be rather generous. Again they would be competitive but in creating a market here we're using a prime government obligation as collateral so it certainly deserves consideration. We would hope that if the central clearance bank is appointed or is approved or if we can make arrangements with the central clearance bank such as the Philippine National Bank, here again loan limits will be established with them for last minute transactions. We may find that at 4 o'clock on a Tuesday, at a critical time, someone has to raise money. Well, it will be up to us to make the market so that we can take his security, but then we have to be able to run somewhere with it at the last moment. We will have to go toward loan limits you might say, or loan banks.

This then is how a central clearance bank with dealer-lines established would make available financing. Within that task down to repurchases, one of the things that comes to the dealers is the fact that they are recognized by the Central Bank. They will have cash in rapport with the Central Bank through the open market department. The Central Bank will know the tone, tenor, activity in the market. And in turn they will be able to gauge whether the market needs help, does not need help.

Of course, this may be at a penalty rate. We may find that we bought the bills in auction at 625. The penalty rate if we run

to the Central Bank may be 6-1/2. Therefore, it makes us more aggressive in selling those bills. We may be willing to take a quick loss on the bills, get out of them quickly and take another look at the next week's auction. This is what makes the market fluctuate. This is all subject to negotiations. We negotiate our rates on the day loans, we negotiate our rates with the corporations on repurchases. This is the give and take of the market so to speak. That makes it a free market, a viable market. But at the same time, as a court of last resort -- if our capital is used, if day clearances have been made, our bank loan repurchases made, PNB lines full, we have to go somewhere. We go hat in hand to Central Bank, which may or may not take us off the hook. It might say: "No, we find that there is money around on the statements that we receive and you're not looking hard enough." They won't tell us where, but if they close the window on us, we have to hustle that much more.

As the court of last resort, the Central Bank purchases and sells. We talked about Central Bank repurchases which are only usually for 15-day periods and can be curtailed at the option of either party, or renewed, at the end of 15 days subject to renegotiation on the rate. Now we talk about Central Bank purchases and sales.

I just would like to read the statement I have here on that

Depending upon Central Bank Monetary Board and Department of Finance objectives, the Central Bank through its Securities Department, in this case its open market department, will make purchases or sales to the recognized bank and non-bank dealers, security dealers, to achieve the desired results. Sensitiveness of the market to open market transactions of the Central Bank will be immediately and directly transmitted to the broad spectrum of money market rates. It is contemplated that this operation will be resorted to only infrequently and as a response to economic changes which necessitate Central Bank influence.

This then is the way a dealer organizes his position, how he finances his position, and how he trades.

I would like to go back for the moment to bidding techniques on the auction bidding, now that we've established exactly how broad the market can be, what it can be. We'll take again the array of tenders on Table II. I would like to get down a little bit more fully as to what we mean by various terms. The terms I am going to use are all common market terms about the bidding.

Bank A and Corporation A, both strong bidders, are bidding to get. The market has been discussing where the bills might go, and they've discussed in terms of about a 6.50% to a 6.55%. If you want to get them, bid in close to 6.50%. If you're less likely to get them, bid in around 6.55%. Well, 98.384 is actually 6.498%. These people having heard the street rumors or the dealer rumors about the 6.50-55% range decided, "we're willing to pay it, so we'll pay it through 6.50%. We will even pay 6.498%." Corporation B -- they wanted to get them but they bid right smack on that 6.50% level.

Now, Dealer A is what we call a bidder in size on a scale. You notice he has put in half-million peso bids at 98.379, 98.376, 98.375, 98.374. This is the function of a dealer. Put in several bids, get a decent average, try to get few cheap ones once in a while, so that you can make real offering to those who missed them.

Corporation B is a scale bidder. If you go down the array table, you find a good 98.382, 98.376, 98.375 -- \$200 thousand each.

On the bidding form itself, you put one bid for one maturity -- one and out. However, that doesn't mean you can't put in more than one tender. You can put in as many tenders as you want for whatever amount you want, with the exception that any one bidder can only put in a non-competitive bid for 50,000 or less. But on a competitive bid you can bid for the whole works or at a scale or whatever you want.

Insurance Company A, Insurance Company B -- they heard this talk about this a 6.50-6.55 so they put in somewhere in that level and as you see, Insurance Company A bid 98.379, Insurance Company B bid 98.376.

Bank Dealer A and Bank Dealer B are unaggressive scale bidders. If you look at their bids, you recognize that they tailed out a little bit, they got down at the lower end.

Take a look at Dealer B, he put in a million at 98.376; that is what we call a good spot bid. And as you see, he hit it very well because 98.375 was the stop. If he had bid a penny less, he would have got only 20%. This way he gets his full million. However, he had what we call a tail-out bid also. In addition to 98.376, he had a smaller bid at 98.374. That's in case it ran a little bit, he might catch a little cheaper average.

Take a look at Dealer C. Dealer C bid 98.375 and so has the two million. Now that was a good bid. He caught it stop-out but instead of getting two million he got only 400 thousand. That was the break-point which we talked about before.

Corporation C is what we call a throw-away bidder. He heard the talk about something between a 6.50 and 6.55, so he threw it out at tail end to see if he could get some cheap ones. If they come, well fine, if he missed them, there will be another week.

So these are the terms that we use in the bidding. These are the appraisals that are made. These are the types of bid that are made: spot bids, stop bids, scale bids, and they're all self-explanatory more or less.

Now with this brief indication of bidding techniques, what I would like for you to do is to make a bid for some bills, on your bidding forms right now. Tear the bidding form out of your book and pass it along and we'll have somebody compile it, and let's see what we come up with as far as bids are concerned. I'm going to lead this just a little bit. The dealers have been talking, and we've agreed that the market tone is good, last week's bid went right up this particular level, so we think it'll probably go in to the 6.50% to 6.55% range. We're also going to give the dealers again another break, they can put in five bids; up to five bids if they want. We'll hold the dealer's bid all temporarily and then put in the bidding

rate later on. So would you take a moment then to fill out one of the bidding forms and after you have completed, just pass them down towards this end of the table. If you want these forms back you may put your name on them and we'll in some way get them back to you.

In the bidding form, two figures will show: one, the amount of your bid and second the bid itself. Use your bidding table. You have to put it in terms of three decimals 98. -1-2-3.

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I would like to go on now to why people bid strong, easy or whatever it might be, and how the Central Bank enters the bid.

Number 1 is procedures that have to be set up or adopted. The Central Bank cannot bid directly in auction for its own account, unless it has the maturing bill. This gives it access you might say to the roll-over of the bill, but only if it has previously bought the bill in the market. Why will the Central Bank buy in the market? Well, I might cite why the Federal Reserve at New York does, and I'm sure you can apply it to similar situations here in the Philippines, whether it is to meet the April 15th needs, July 15th needs, year-end needs.

In the U.S. we have the four tax dates. These are notoriously periods of tight money for the banks - periods during which the open-market committee operates rather aggressively in providing funds. In the fall of the year we have a build-up of retail stocks in the department stores for sale at Christmas time. Here again, the retail stores, the department stores and others run to their banks looking for accommodations so that they can pay to manufacturers for the delivery of goods, which will be sold at Christmas time and billed to the customer probably sometime in early January. So that they need financing. And this is a perennial problem on a seasonal basis. It requires massive doses of Central Bank - Reserve Bank in our case -- participation in the market. So that they will buy between a billion-and-a-half and two-and-a-half billions of securities providing the market with this amount of money in the period between roughly Oct. 1 and Nov. 30. In turn they buy bills with maturities in early January, early February. This they let run off, so that in turn, as the money becomes available again, and rates get freer, the Reserve liquidates their bills.

This is the operation of a Central Bank in off-setting seasonal influences. You can see how it can also be used for April 15th,

July 15th tax payments, similar again to our operation where it's used. The same technique could be used also for rises in float. In New York where there is terrific rise in the float, this amounts to hundreds of millions of dollars between mid-month and end of month. The Federal is active in participating in the market through the medium of the dealers and by purchasing and selling securities; so that these periods of extreme tightness are eased. We have the 4th of July three-day weekend, the Labor Day 3-day weekend when there is a terrific rise in money in circulation. This constitutes a terrific drain on the banks. These are things that strain the money market. The Federal comes in early in the week and provides some funds so that the transition is easier. Generally, funds for very short periods of that kind are provided through the repurchase market. They do repurchases with the dealers so in time the repurchases run off, after six days, and after eight days, and the condition is alleviated. This is the technique you might say of the money market in meeting seasonal needs.

Let me use some other expressions on you. Riding the curve. By riding the curve, we mean a 91-day bill comes out... fine, it's worth about roughly a 6.50 and meets good market reception; the spread is down to a 6.45. Remember in talking yields, we are always talking in reverse of price, yields go down, price goes up. Therefore, when we say the yield is going down from 6.50 to 6.45, the buyer at 6.45 naturally is paying more in terms of dollars. The next bid comes out at a 6.45, moves to a 6.40; meanwhile a previous bill moves to a 6.30. Before you know it, you can have a yield curve established. So that the shorter bills, as they near maturity, will probably be dearer in price but lower in yield.

The spreads that are going to be available to the dealers will be very narrow in comparison to the current call market, acceptance market, finance paper market where the spreads range from 100 to 300 basis points. In this market a dealer will have points to deal within. It follows that dealers will have to exist on a volume of turnover.

But the only way we can get an acceptable market is if we keep a narrow market that is attractive to the buyers and sellers. If you buy an 86-day bill from us at a 6.10, if we in turn quote you a market eight days later on that bill, when you want to come in to sell it, a 100 basis point wide, why you're going to find it very unattractive. However, if we maintain a narrow enough market, it will be attractive to the buyer and seller, it will contribute volume and the dealers will thrive on the volume, hopefully. I can say again,

however, that initial volume will not provide sufficient bargains for the dealers to make a living out of this. But there are a lot of corollary benefits to a dealer.

In a case of the bank dealer, he'll be in touch with his corporate treasurers, not only his own but corporate treasurers of probably every major corporation in the country. He will be in touch with insurance company executives, advising, soliciting their business on a continuing basis. Similarly, in the case of the dealer he will be getting corollary benefits by establishing his contacts, building up his contacts with his corporate customers, providing a service to them. This is one of the ways that the New York Bank dealers make points on this. These are these corollary benefits outside of dollar-and-cents bids.

Looking at the future and the realm of fantasy let me show you what a chosen quotation of Philippine treasury bills, notes and bonds may look like November 3, 1967. Take a look at Table 4, part 2. Now, correct me if I'm wrong, but it is in my understanding that certain PW & ED bonds are not eligible for support. This they delineated in the issues of 1958, -59 and -60. What we did here is we took the treasury notes. Admittedly, the treasury notes are all locked up right now. But we took those treasury notes and we asked ourselves the question: "What kind of maturity is there on the treasury notes?" and we established, there's a Dec. 29, 1967 maturity on the ₱15-million five percents of 1964. Admittedly, they're in the Central Bank. Now watch a Dec. 29th bill. Well, if you went back one page and you find, well, Dec. 25th bills, we have those at 5.65%. Dec. 18th bills are offered at 5.65%. Anybody who wants to step in and bid the Central Bank the 15 million of this, they might listen. If they needed to contribute to the money flow, they might be provided the market at a price.

Similarly, you look at the yield scale. You can see a March 25th note on 6.15% or thereabouts. We put an offered price at 6.15%. Well, take a look at the next item -- Socio-Economic 7's at 6.75%. They are not traded except on adverse circumstances. But you are aware that the other day ₱2.5 million worth of those were traded on the exchange. This I understand is the largest transaction that has taken place in notes in quite some time. I can't tell you who did it, I hear all kinds of rumors, I have tried to run it down, but there are too many people that owe ₱2.5million of those. On the other hand there are not too many people who have an appetite for ₱2.5 million. But it shows what can be done.

I might recite an amusing experience I had. I was here only five days and beginning to get hot on this thing. And we went into a corporate treasurer's office and explained what we were trying to do, to get a feel of this yield market, get a yield curve so to speak. And he said, "Oh boy, I would like to see that, I've got a million-and-a-half of the socio-economic sevens I'd like to get out of". I said to him, "Well look, I do not know much about this market but suppose I pay you 93 for half a million would you sell it?" He said, "Oh, no, I wouldn't sell them there" I said "Good that gives me courage, I bid 94 for the half million". He said "Oh no, my price is much higher than that". I said: "What is your buying price? Would you buy it at 95?" He said, "Yes, I might look at it some more at 95." I said, "Fine I got a market already." He is supposed to buy it and sell it at a price. Now, all I have to do is hurry around and find somebody else on the other side.

This is the way a market is created. This is the way a dealer operates. Get people talking about what they want to do. The dealers try to get the buyers and sellers together. Is that fantasy? We're talking about 1967, a year and a half from now.

Going from there we extend the curve and I've selected what I have been given to understand are non-supported PW & ED bonds, NPC bonds, NAWASA bonds, due 1994. Who ever heard of a quote of 6% for 1994. Well, I think it is worth 83 to 84, on a 7.38% yield. Anybody want to dispute this? Anybody have any bonds for sale, anybody have any interest in these bonds? This is the type of thing that must be done to generate some interest, to get some dialogue going on it. This is the way a yield curve will be established.

We can create a 91-day yield curve and, again looking at Part I there, you'll see that by yield curve we mean from the 5.40% to the 6.40% at one yield. We interpolate what yields we got on the short-term bond list. It's fantasy, at the same time, it opens dialogue and this is the type of thing that makes the money market. Well, let me see what I have to do here, just one or two remarks, and we open this up to a lot of questions I hope.

In conclusion, I do think establishing a dealer market is practical. We've had rapport. We've had conversation with a sufficient number of dealer houses who are showing interest in us. And there is no reason why it can't be done. It's feasible. The Manila people that we talked to know the value of an old five. They can

easily learn how to bid, how to offer, how to operate, what trading techniques are. I've tried to explain some of them this afternoon.

I come again back to that word sophisticated. Sophisticated to me means a man who knows the value of a peso and the fact that it has to be employed and working for him. And I'll outline to you what I think some of the long-range benefits are. I think Ting (Mr. Roxas) will go into this matter but I'd like at this point to touch on just two or three things that I feel are needed to make this grow.

One is awareness among you bankers that this thing has to work, and I assure you that Manila can become a money market center of the Far East area. There is no reason in the world why only New York can attract money, why only London can attract money, why only Euro-dollars can. You have competitive rates out here. But I think you've got to show the world that it is a good market. That it has depth, it has breadth, it has resiliency, it has a good dealer organization that can function, so that a New York corporation that wants to put a million dollars into this market can do so with confidence, knowing that it can get out at the end of 61 days, 22 days, eight days, whatever it might be. It can hedge by forward sales in the exchange market if necessary. This takes the risk out of it completely. Of course to do that there may have to be some changes in the market. There may be a necessity to remove the 30% tax. This is a problem but it isn't an insurmountable one.

At the same time if the rate is high enough, we might find it can operate against even outstanding rates. Right now the 90-day bill rate in New York is about a 4.60% to a 4.70%. If you're talking 6.25-6.50% perhaps money can be shifted around. Not in the present circumstances: it's a dirty word now in the New York market to send money abroad, so to speak. We're very balance-of-payments conscious. But who knows, this may change three months from now, six months from now, hopefully. Some money is always due to come out. We in New York for many years prior to our recent balance-of-payment problems were shifting money around to the Canadian acceptance market, to the Euro-dollar market to the British bill market, hedged or unhedged. I might give you an example. We had an inquiry not so long ago, a sizeable inquiry. We quoted some rates that we thought were available in the short-term inter-company market so to speak. It was a big concern, coming through our New York office from our London correspondent. They were prepared to put sizeable amounts of money into the short-term market here, until they discovered

that the 30% withholding tax killed it. But, again I say, it is a question of mathematics and arithmetic. If the rates are right, it can be attracted. However, it has to be a sophisticated market that dealers have confidence in. The corporation treasurers again I assure you are very very sharp on this. If you can show them a good market, they'll respond to it.

What we need as far as the dealers are concerned is good margin leverage. I talked 5% on repurchases. I have a hunch that if this thing expands, you'll have banks doing it at 1%, similar to what they're doing in New York. This is a non-risk business. It's short-term. You'll get to know your dealers. You'll get to know what they can do for you, how they perform. You need efficient and low-cost clearance. Here we'll need the cooperation again of the PNB or an institution that's willing to take this on.

I wouldn't recommend it particularly for a bank; there isn't a lot of money in it. In New York for instance they do it for a cent a bill, one cent per bill which is \$10 per million. On the transaction, Manufacturers Hawover and the Bankers Trust make money on it. On a long-term bond they'll do it for three-and-a-half cents a bond. This is \$35 a million, on a long-term bond. But this again will require a central clearance, efficient and low cost.

There is of course the tax question. I am not in a position to answer tax questions, but this much I can say -- I'm sure this can be reconciled. I'm sure this can be adjusted to accommodate the market if it is advantageous to the government.

This, Gentlemen, is my presentation. I hope you've enjoyed it as much as I have enjoyed bringing these ideas to you.

APPENDIX IV

by

SIXTO K. ROXAS

Short-Term Government Securities
and the Money Market as Pre-requisites
for More Refined Monetary Management

SHORT-TERM GOVERNMENT SECURITIES AND THE
MONEY MARKET AS PREREQUISITES FOR MORE
REFINED MONETARY MANAGEMENT

(Discussion during the seminar on Government Securities,
Madrid Restaurant, February 10, 1966.)

By

SIXTO K. ROXAS
President
Bancom Development Corporation

I will say, Ladies and Gentlemen, I think mine is the almost impossible task of reawakening interest and enthusiasm after the cocktail hour and after the heavy dinner and at the end of a hard day.

I have really two jobs this evening. One is to tie the discussions together and present the mechanics of bill trading within the context of the banking system and monetary management. The second is to set the stage for the general discussions to follow. We are quite anxious to get the thinking of the people who are here gathered, on this subject. We are anxious that every individual should participate, be vocal, and if necessary, be objectionable.

The first question I would like to raise here regards the establishment of a more and better organized

money market, with all the accouterments of an organized money market. Is this something that we want to do simply because it is a sophisticated thing, that we're not with it unless we have an organized money market and unless we can talk in the same terms as a New York or a London Banker? Is that the only reason that we're thinking of an organized money market?

The fact is and the thesis that I would like to put on the table here is that it is to the interest of the banking system that there be an organized money market. I would like to advance certain assumptions that are important if we are to establish a case for organizing the money market in a more sophisticated manner in this country.

I am assuming first of all that we all agree that it is good to have a managed money system and to have a Central Bank. Do I hear anybody objecting to having a Central Bank? So we are agreed that we need a Central Bank.

The second assumption I would like to make is this. The Central Bank in the Philippines is to be a Central Bank in the sense that it is a banker of last and not of first resort. It is not to be a source of leverage money, which means that Central Bank funds should not be permanently

committed to the banking system as a source of funds which are cheaper than the loan rate. So I'm making that assumption and I suppose we are agreed on it also: that the Central Bank is to be responsible for making funds available as necessary and is not to be permanent source of commercial bank funds; not a permanent source of leverage money.

The corollary to this assumption is that it is desirable to reduce the dependence of the commercial banking system on the Central Bank. That the commercial banking system should be a commercial banking system in the sense that it has means of clearing its own liquidity requirements before it needs to go to the Central Bank. That is the next assumption that I'm making.

Now, what is the prerequisite for a healthy commercial banking system that corresponds to these assumptions? The answer to that is, a commercial banking system that has the sort of inter-bank trading and trading between banks and the business community that truly constitute a money market. Unless such an active inter-bank trading occurs, you do not have a banking system. You have individual banks negotiating loans with individual borrowers, and individual banks negotiating loans with the Central Bank; but you do

not have a commercial banking system as the term is known in the money markets of the world.

It is important then, for us to determine what are the steps that are required to go from where we are now to a situation where there is a more active money market trading of a genuine type, and to determine how we go from where we are to the type of system that is healthier and that is more self-sufficient and that has recourse to the Central Bank only as a last resort.

Let us now turn to the point of view of a Central Bank in relation to a banking system. How does a Central Bank manage a banking system? What are the handles? The handles are really very simple. They depend on the ratios that commercial bank managers maintain in their balance sheets. These, in essence, are what provide the means for the Central Bank to regulate the banking system.

If there were no conventions, if commercial banks did not maintain according to some convention, definite ratios between particular assets and particular liabilities, the Central Bank would have no means of regulating fund management in the banking system. Now, in some countries like the United Kingdom, these ratios are not dictated by law; they are dictated by convention. But in a country like United Kingdom, convention has a stronger force than

law. In other countries, of course in the United States, these conventions are established by law. There you have a legal reserve system. The same system that we have here. It is because, by law, the ratio of particular assets to particular liabilities of a commercial bank can be dictated that the Central Bank is able as it were to manage the commercial banking system.

But there are varying degrees of management. A system which is managed by the Central Bank always through the use of the ultimate legal recourse is not a healthy system. It is a system that is kept in line by the club at all times. So that even in countries where you have this legal reserve requirement, the commercial banks establish a convention of maintaining secondary and tertiary liquidity reserves. To the extent that the ratios are no longer dictated by law but dictated by custom and convention, to the extent that convention establishes the standard patterns of commercial bank management, to that extent a more refined instrument is made available to the Central Bank to manage the liquidity position of banks. To that extent the Central Bank is given an instrument that does not depend on the club, that does not depend on the ultimate recourse to the dictates of law and its sanctions.

Where among these types would you put our situation? If you examine the tabulations of commercial bank liquidity positions that are put out, for example by SyCip, Gorres and Velayo, after you get beyond the legally required primary reserves, you find that there is no set pattern of secondary liquidity. I would defy anyone to say what is the secondary liquidity policy that is in general use among commercial banks in the Philippines. There can't be any because the ratios are so jagged, so jagged that at least I have not been able to find any rational basis for secondary liquidity reserve positions. And yet for precisely this reason, for precisely the reason that there doesn't seem to be a self-policing convention on the part of the commercial banks, the Central Bank - and we are now looking from the point of view of the Central Bank - is compelled always to use the club in regulating the liquidity positions of commercial banks. And the club cannot be a gentle instrument. The club cannot be used with the finesse and the nuances of a gentler instrument.

I think the commercial banks complain with good reason that the Central Bank always uses the club on them. But I'd like to see the commercial banker who comes into the Central Bank look at the so-called commercial banking system that we have in the country, and have him develop a

a more refined instrument. No, there is only one way by which the Central Bank can develop finesse and be effective at the same time; and that is if the commercial banking system as a whole decides to establish a second layer convention, which does not depend on law because it is not dictated by law, but which enables the Central Bank to regulate liquidity positions without having recourse to the ultimate weapon. Only the commercial banks can decide this.

Perhaps I shouldn't say only the commercial banks can decide this because if you examine the strict provisions of law, I think you will find the Central Bank does have the power to dictate, aside from the primary liquidity reserves, a level of secondary liquidity reserves in relation to deposits. This is within the power of the Central Bank to do although it has not used it. And, I'll take your side, I don't think that at this stage the Central Bank should have recourse to law.

Sometime back, I don't remember when precisely, there was talk in New York of getting legislation to give the Fed the power to impose secondary liquidity reserves precisely, in order to give the Fed another instrument to regulate bank liquidity positions. Such a legislation is not necessary in the Philippines, it is already there.

In other words, the Central Bank for example could issue a circular tomorrow saying that in addition to the 8% reserves on deposits of various types, banks have to maintain another 15% in secondary liquidity assets appropriately defined. This ratio may be maintained - not necessarily daily, but perhaps averaged out weekly. That would give the banks a little flexibility, and eliminate the dread of daily clearing. It could be done.

I don't think, however, that this would be the proper way of establishing an instrument that is of a much more refined character. I think that this is something that the commercial bankers should be able to do in the way of establishing certain self-policing rules. And it is to the interest of the commercial banking system to do this. Right now, because the only convention that exists among the commercial banks with respect to portfolio management, is the maintenance of the legal reserve requirements, this is the only area for inter-bank trading. The equivalent of the Fed funds market in New York, our call market, is really a trading in primary liquidity. And there is no trading in secondary liquidity.

Chet (Mr. Babst) has mentioned that there is no trading in bankers acceptances - there doesn't need to be trading in bankers acceptances because you only have a market

if there is a continuing demand for particular instruments. If the banks established a convention of maintaining a definite ratio of their assets in paper that is generally marketable, fine bankers acceptances or high grade commercial bills, then there would develop a market for this instrument. Then all the accompaniments of a market for this instrument would develop; namely a rating system for bankers acceptances, for accepting bankers, a rating system for commercial names. Bank statements would then be examined carefully with respect to the secondary liquidity and tertiary liquidity positions and the quality of the portfolio. Then commercial names would be examined and individual companies would begin to form the habit of maintaining their credit in an open market.

For as long as the transaction is between a businessman and his banker, a businessman feels no qualms about going to his banker, calling him up - calling him up not even on due date, but a few days after due date - to make, as they say, "pakiusap". But if you had an active bankers acceptance market -- no businessman could make "pakiusap" with an impersonal market any more than San Miguel Corporation could make "pakiusap" with the stock exchange. Then we would see sound financial habits develop in this market. Then you would have an alternate means of adjusting

your positions. Right now if you lose in the clearing, you either look for call money or, if you have a limit left, then you have recourse to the discount window. In either case, you borrow. You only have one recourse, namely, to increase your liability.

It should be feasible to add another recourse, namely, to dispose of some high-grade papers and to sell these to other banks. And if there were such a market at certain times of the year, let us say between the Philippine National Bank and the private banking system, come the April 15 tax deadline, it might be feasible that at the same time that you transfer deposits to the Philippine National Bank you might sell the Philippine National Bank high grade bills to put you in funds. So such an active market would offer all sorts of inter-bank adjustments particularly when the liquidity problem or the loss of liquidity problem is purely an inter-bank problem. When the loss of liquidity problem is a banking system problem, if there has been a net drain on the banking system let's say by reason of balance of payments movements, then the Central Bank has an instrument for bringing liquidity into the banking system through open market operations; by the Central Bank's coming into the market and on its own account trading in acceptances and bills. And this need not enter into anyone's "ceiling".

So this is the importance of developing a commercial banking system where there is a real money market, where there is access to an impersonal trading mechanism. The best way to establish one is through regular cycles of treasury bill issues.

As you know, I think Chet or Herman mentioned that in the inter-bank call market you really have cliques - meaning there are groups of banks that like to lend to one another but would not lend to anybody else. Well, when you come right down to it, the call market is trading in clean instruments and when you're trading in clean instruments it is important which bank appears as your debtor. If there were, however, a high grade instrument that was generally acceptable, then inter-bank trading could cover the whole banking system. The treasury bill provides this instrument, provides an instrument, which, by reason of an established dealer network, servicing by the Central Bank and an effective machinery for prompt payment, will be a highly liquid and generally acceptable instrument.

So it does mark the first step towards bringing together the individual commercial banks into a commercial banking system, and it does mark the first substantial step toward developing a cushion between the commercial bank and the Central Bank, that gives the Central Bank an instrument

for making finer adjustments in liquidity positions without always having to wield the club.

This then is what we believe to be the stake of the commercial banking system in the development of a treasury bill market. Now, I would like just to make one final point and then throw the floor open to discussion.

Why do we feel that it is so important that the treasury bill should not be eligible for reserves? We feel that in building this active money market, we must build from what we have now. But we can only build from what we have now if we take one step away from where we are now. If we merely introduced a Central Bank supported 91-day treasury bill, we would not have taken a step forward. We would have just added to the present inventory of what are really demand instruments of the government, because by giving it support, the Central Bank in effect has transformed 15-year bonds into demand bills and so it is senseless to think of them as long-term bonds. If we are to depart from this, if we are to take a step forward, then we feel the two essential things are -- first of all, that this must not be a primary liquidity instrument, which the supported bond is because it itself is eligible as legal reserve -- and that makes it a primary reserve instrument. Second, that the market for this instrument must not be the

Central Bank. It must be a conventional dealership network. The dealership network may have to be helped by the Central Bank but the market for that instrument must be made by the dealers. Otherwise we have not really taken the step forward.

To summarize, we feel that it is important that the commercial banking system develop itself into a system that in effect makes it possible for every bank to look to its sister banks to clear liquidity differences, so that the system as a whole develops a way of clearing its liquidity problems before the system has recourse to the Central Bank. Second, by reducing its dependence on the Central Bank, the system then becomes less subject to whatever shifts there might be in Central Bank policy. Three, it gives the Central Bank a means of making much finer adjustments in liquidity positions than the Central Bank is able to do now, since it can only deal in primary reserves. And finally we feel that the first substantial step towards establishing this system which makes you much more self-sufficient, is the development of a 91-day treasury bill. Thank you.

/ls

Specimen I

CENTRAL BANK OF THE PHILIPPINES
Fiscal Agent of the Republic of the Philippines

Circular No. _____
April 18, 1966

OFFERING OF TREASURY BILLS

₱5,000,000 of 91-day Bills, dated May 2, 1966, due August 1, 1966

To All Incorporated Banks and Trust Companies, and Others Concerned:

Following is the text of a notice issued by the Secretary of Finance released for publication today:

The Secretary of Finance, by this public notice, invites tenders for one series of Treasury Bills to the aggregate amount of ₱5,000,000 or thereabouts, for cash, as follows:

91-day bills to be issued May 2, 1966 in the amount ₱5,000,000 or thereabouts, and to mature August 1, 1966.

The bills will be issued on a discount basis under competitive and non-competitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form only, and in denominations of ₱1,000, ₱5,000, ₱10,000 and ₱100,000 (maturity value).

Tenders will be received at the Central Bank of the Philippines up to the closing hour, twelve o'clock noon, Monday, April 25, 1966. Tenders will not be received at the Department of Finance. Each tender must be for an even multiple of ₱1,000, and in the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by the Central Bank of the Philippines on application therefor.

Banking institutions generally may submit tenders for account of customers, provided the names of the customers are set forth in such tenders. Others than banking institutions will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in

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investment securities. Tenders from others must be accompanied by payment of 2 per cent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Central Bank of the Philippines, following which public announcement will be made by the Secretary of Finance of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof.

The Secretary of Finance expressly reserves the right to accept or reject any or all tenders, in whole or in part, and its action in any such respect shall be final. Subject to these reservations, non-competitive tenders for P50,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Central Bank of the Philippines on May 2, 1966, in cash or bank cashier's check, or charge to institutions Central Bank accounts.

The income derived from Treasury Bills, whether interest or gain from the sale or other disposition of the bills, does not have any exemption, as such, and any loss from the sales or other disposition of Treasury bills are governed by the National Internal Revenue Code (C.A. No. 466, as amended). For purposes of taxation, the amount of discount at which Treasury Bills are originally sold by the Republic of the Philippines is considered to be interest. The amount of discount at which bills issued hereunder are sold is not considered to accrue until such bills are sold, redeemed or otherwise disposed of.

This bank will receive tenders for both series up to 12:00 noon, Monday, April 25, 1966 at the Securities Department of its Head Office. Tender forms for the series are enclosed. Please use the appropriate forms to submit tenders and return them in an envelope marked "Tender for Treasury Bills". Tenders may not be submitted by telegraph or by telephone.

ANDRES CASTILLO
Governor

Specimen II

**IMPORTANT - Closing date for receipt of tenders is
Monday, April 25, 1966 at 12:00 noon.**

No. _____

TENDER FOR 91-DAY TREASURY BILLS

Series dated May 2, 1966 due August 1, 1966

To The Central Bank of the Philippines

Fiscal Agent of the Republic of the Philippines _____, 19

Pursuant to the provisions of the public notice issued by the Secretary of Finance inviting tenders for the above-described Treasury bills, the undersigned hereby offers to purchase such Treasury Bills in the amount indicated below, and agrees to make payment therefor at your Bank on or before the issue date at the price indicated below:

COMPETITIVE TENDER

Do not fill in both competitive and Noncompetitive tenders on one form

NONCOMPETITIVE TENDER

**_____ (maturity value)
or any lesser amount that may be awarded.**

Price: _____ per 100.
(Price must be expressed with not more than three decimal places, for example, 99.925. Use separate tenders for each price)

P_____ (maturity value)
(Not to exceed P50,000 for one bidder
through all sources)

At the average price of accepted competitive bids.

Subject to allotment, please issue, deliver, and accept payment for the bills as indicated below:

Pieces	Denomination	Maturity Value
	P 1,000	
	5,000	
	10,000	
	50,000	
	100,000	
	Totals	

☐ 1. Deliver over the counter to the undersigned.
☐ 2. Ship to the undersigned.
☐ 3. Special instructions:

(No changes in delivery instructions will be accepted)

Payment will be made as follows:

☐ By charge to our reserve account

☐ By cash or check in immediately available funds

Insert this tender in
special envelope
marked "Tender for
Treasury Bills"

Name of subscriber _____
(Please Print)
By _____ By _____
(Official signature(s) required)
Title _____ Title _____
Address _____

(Banking institutions submitting tenders for customer account must list
customers' names on lines below or on an attached rider)

(Name of Customer)

(Name of Customer)

INSTRUCTIONS:

1. No tender for less than P1, 000 will be considered, and each tender must be for an even multiple of P1, 000 (maturity value).
2. Others than banking institutions will not be permitted to submit tenders except for their own account. Banking institutions submitting tenders for customer account may consolidate competitive tenders at the same price and may consolidate non-competitive tenders, provided a list is attached showing the name of each bidder, the amount bid for his account, and method of payment.
3. If the person making the tender is a corporation, the tender should be signed by an officer of the corporation authorized to make the tender, and the signing of the tender by an officer of the corporation will be construed as a representation by him that he has been so authorized. If the tender is made by a partnership, it should be signed by a member of the firm, who should sign in the form "..... a copartnership, by a member of the firm."
4. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 per cent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.
5. If the language of this tender is changed in any respect, which, in the opinion of the Secretary of Finance, is material, the tender may be disregarded.

Specimen III-A

CENTRAL BANK OF THE PHILIPPINES
Fiscal Agent of the Republic of the Philippines

ACCEPTANCE OF BILL TENDERS

91-Day Bills, Dated May 2, 1966, Due August 1, 1966

In accordance with your tender or tenders you have been awarded
the following bills at the prices indicated:

COMPETITIVE

<u>Maturity Value</u>	<u>Price Per 100</u>	<u>Cost</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
Total Competitive: P _____		P _____

NON-COMPETITIVE

P _____	P _____	P _____
Total Par: P _____	Total Cost:	P _____

Delivery and payment will be on May 2, 1966 in accordance
with your instructions at the time of tender.

(SGD.) _____

(Official)

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Speciment III-B

CENTRAL BANK OF THE PHILIPPINES
Fiscal Agent of the Republic of the Philippines

REJECTION OF BILL TENDERS

91-Day Bills dated May 2, 1966 Due August 1, 1966

To:

In accordance with your tender or tenders submitted at a price
lower than _____ (Insert cut-off price) _____ the following tenders
have been rejected:

<u>Maturity Value</u>	<u>Rejection Price</u>
P _____	P _____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

SGD. _____

(Official)

Specimen IV

**Republic of the Philippines
Department of Finance**

Treasury Bill Awards

Press Release: Not to be released prior to 3:00 P. M.

(Date)

The Department of Finance has announced the award at auction of Treasury Discount Bills dated _____ and maturing _____ as follows:

Range of Accepted Bids

	<u>Price</u>	<u>Approx. annual rate</u>
High	98.384	6.498%
Low	98.375	6.535%
Average	98.377	6.527%

20% of the amount bid for the bills at the low price was accepted.

Total applications for the bills amounted to ₱12,600,000 of which ₱5,000,000 were accepted including ₱600,000 of non-competitive tenders at an average price of 98.377.

(SGD.) _____

(Official)

Specimen V

REPUBLIC OF THE PHILIPPINES

TREASURY BILL NO. _____

P. _____

Issue Date

On presentation of this Treasury Bill to the
Central Bank of the Philippines, the Republic
of the Philippines will pay to the bearer

_____ Pesos

Due and Payable

without interest on the date specified hereon.
This Treasury Bill is issued under authority of
Republic Act No. 245 entitled "An Act author-
izing the Secretary of Finance to borrow to
meet public expenditures authorized by law,
and for other purposes", approved June 12,
1948. This Treasury Bill is issued by the
Central Bank of the Philippines pursuant to a
tender accepted by the Secretary of Finance
and shall not be valid unless the issue date and
the maturity date are entered hereon.

Manila, Republic of the Philippines.

SECRETARY OF FINANCE

Recorded

**Registrar
Central Bank of the Philippine
Fiscal Agent
Republic of the Philippines**

TABLE I

**RANGE OF YIELDS WITH CORRESPONDING PRICES
WITH 91 DAYS TO MATURITY**

<u>Yield</u>	<u>Price</u>	<u>Yield</u>	<u>Price</u>	<u>Yield</u>	<u>Price</u>	<u>Yield</u>	<u>Price</u>
6.200%	98.457	6.330%	98.425	6.461%	98.393	6.592%	98.361
6.204%	98.456	6.335%	98.424	6.465%	98.392	6.596%	98.360
6.208%	98.455	6.339%	98.423	6.469%	98.391	6.600%	98.359
6.212%	98.454	6.343%	98.422	6.473%	98.390	6.604%	98.358
6.216%	98.453	6.347%	98.421	6.478%	98.389	6.608%	98.357
6.220%	98.452	6.351%	98.420	6.482%	98.388	6.612%	98.356
6.224%	98.451	6.355%	98.419	6.486%	98.387	6.617%	98.355
6.228%	98.450	6.359%	98.418	6.490%	98.386	6.621%	98.354
6.232%	98.449	6.363%	98.417	6.494%	98.385	6.625%	98.353
6.237%	98.448	6.367%	98.416	6.498%	98.384	6.629%	98.352
6.241%	98.447	6.371%	98.415	6.502%	98.383	6.633%	98.351
6.245%	98.446	6.375%	98.414	6.506%	98.382	6.637%	98.350
6.249%	98.445	6.379%	98.413	6.510%	98.381	6.641%	98.349
6.253%	98.444	6.384%	98.412	6.514%	98.380	6.645%	98.348
6.257%	98.443	6.388%	98.411	6.518%	98.379	6.649%	98.347
6.261%	98.442	6.392%	98.410	6.522%	98.378	6.653%	98.346
6.265%	98.441	6.396%	98.409	6.527%	98.377	6.657%	98.345
6.269%	98.440	6.400%	98.408	6.531%	98.376	6.661%	98.344
6.273%	98.439	6.404%	98.407	6.535%	98.375	6.665%	98.343
6.277%	98.438	6.408%	98.406	6.539%	98.374	6.669%	98.342
6.281%	98.437	6.412%	98.405	6.543%	98.373	6.673%	98.341
6.286%	98.436	6.416%	98.404	6.547%	98.372	6.677%	98.340
6.290%	98.435	6.420%	98.403	6.551%	98.371	6.681%	98.339
6.294%	98.434	6.424%	98.402	6.555%	98.370	6.686%	98.338
6.298%	98.433	6.429%	98.401	6.559%	98.369	6.690%	98.337
6.302%	98.432	6.433%	98.400	6.563%	98.368	6.694%	98.336
6.306%	98.431	6.437%	98.399	6.567%	98.367	6.698%	98.335
6.310%	98.430	6.441%	98.398	6.572%	98.366	6.702%	98.334
6.314%	98.429	6.445%	98.397	6.576%	98.365		
6.318%	98.428	6.449%	98.396	6.580%	98.364		
6.322%	98.427	6.453%	98.395	6.584%	98.363		
6.326%	98.426	6.457%	98.394	6.588%	98.362		

Table II

Array of Tenders

<u>Tender Price</u>	<u>Bidder</u>	<u>Amount</u>	<u>Percentage Award</u>	<u>Proceeds</u>
98.384	Bank A	P 150,000	100%	P 147,576.00
	Corporation A	200,000	100%	196,768.00
98.382	Corporation B	200,000	100%	196,764.00
98.379	Dealer A	500,000	100%	491,895.00
	Bank B	300,000	100%	295,137.00
	Insurance Co. A	100,000	100%	98,379.00
98.376	Dealer A	500,000	100%	491,880.00
	Dealer B	1,000,000	100%	983,760.00
	Bank Dealer A	200,000	100%	196,752.00
	Corporation B	200,000	100%	196,752.00
	Insurance Co. B	250,000	100%	245,940.00
98.375	Dealer A	500,000	20%	98,375.00
	Bank Dealer B	500,000	20%	98,375.00
	Corporation B	200,000	20%	39,350.00
	Pension Fund A	100,000	20%	19,675.00
	Municipal Fund A	200,000	20%	39,350.00
	Dealer C	2,000,000	20%	393,500.00
	Bank D	200,000	20%	39,350.00
	Dealer D	300,000	20%	59,025.00
98.374	Dealer A	500,000	0	4,328,603.00
	Dealer B	300,000	0	
	Bank Dealer A	300,000	0	
	Bank Dealer B	500,000	0	
	Corporation C	500,000	0	
98.372	Dealer B	300,000	0	
	Bank Dealer C	1,000,000	0	
	Corporation C	500,000	0	
	Pension Fund B	500,000	0	
Sub-Total Competitive		12,000,000		
Non-Competitive at 98.377		600,000		590,262.00
Total Subscriptions		P12,600,000		
Total Issued		P 5,000,000		P4,918,865.00

Table III

Auction of Treasury Bills - Tentative Calendar

First Cycle - P5 million Weekly - 7 Auctions - P35 million

<u>Announcement Date</u>	<u>Auction</u>	<u>Award</u>	<u>Issue Date</u>	<u>Due Date</u>
4/18/66	4/25	4/26	5/ 2	8/ 1/66
5/ 2/66	5/ 9	5/10	5/16	8/15/66
5/16/66	5/23	5/24	5/30	8/29/66
5/30/66	6/ 6	6/ 7	6/13	9/12/66
6/13/66	6/20	6/21	6/27	9/26/66
6/27/66	7/ 4	7/ 5	7/11	10/10/66
7/11/66	7/18	7/19	7/25	10/24/66

Second Cycle - P5 million Weekly - 13 Auctions - P30 million

7/18/66	7/25	7/26	8/ 1 (Roll)	10/31/66
7/25/66	8/ 1	8/ 2	8/ 8	11/ 7/66
8/ 1/66	8/ 8	8/ 9	8/15 (Roll)	11/14/66
8/ 8/66	8/15	8/16	8/22	11/21/66
8/15/66	8/22	8/23	8/29 (Roll)	11/28/66
8/22/66	8/29	8/30	9/ 5	12/ 5/66
8/29/66	9/ 5	9/ 6	9/12 (Roll)	12/12/66
9/ 5/66	9/12	9/13	9/19	12/19/66
9/12/66	9/19	9/20	9/26 (Roll)	12/26/66
9/19/66	9/26	9/27	10/ 3	1/ 2/67
9/26/66	10/ 3	10/ 3	10/10 (Roll)	1/ 9/67
10/ 3/66	10/10	10/11	10/17	1/16/67
10/10/66	10/17	10/18	10/24 (Roll)	1/23/67

Table IV - Part I

Central Bank of the Philippines
Fiscal Agent of the Republic of the Philippines

Consensus of Closing Quotations November 3, 1967

Philippine Treasury Discount Bills

<u>Amount Outstanding (Millions of ₱)</u>	<u>Maturity</u>	<u>Bid Yield Discount</u>	<u>Offered Yield Discount</u>
7-1/2	11/ 8/67	5.80%	5.40%
7-1/2	11/13/67	5.80	5.50
7-1/2	11/20/67	5.75	5.50
7-1/2	11/27/67	5.85	5.55
5	11/30/67	5.80	5.40
7-1/2	12/ 4/67	5.85	5.55
7-1/2	12/11/67	5.85	5.60
7-1/2	12/18/67	5.85	5.65
7-1/2	12/25/67	5.85	5.65
5	12/31/67	5.75	5.50
7-1/2	1/ 1/68	5.95	5.75
7-1/2	1/ 8/68	6.00	5.80
7-1/2	1/15/68	6.00	5.85
7-1/2	1/22/68	6.10	5.90
7-1/2	1/29/68	6.10	6.00
5	1/31/68	6.05	5.95
2-1/2	2/ 5/68	6.10	5.90
2-1/2	2/12/68	6.20	6.00
2-1/2	2/19/68	6.20	6.10
2-1/2	2/26/68	6.20	6.00
5	2/28/68	6.10	5.90
2-1/2	3/ 5/68	6.25	6.05
2-1/2	3/12/68	6.25	6.15
2-1/2	3/19/68	6.25	6.05
2-1/2	3/26/68	6.30	6.15
5	3/31/68	6.15	6.00
2-1/2	4/ 2/68	6.30	6.10
2-1/2	4/ 9/68	6.35	6.20
2-1/2	4/16/68	6.35	6.20
2-1/2	4/23/68	6.40	6.20
7-1/2	4/30/68	6.40	6.20
5	5/31/68	6.30	6.20
5	6/30/68	6.40	6.25
5	7/31/68	6.45	6.30
5	8/31/68	6.45	6.25
5	9/30/68	6.50	6.30
5	10/31/68	6.60	6.40

₱190.0

Table IV - Part II

Consensus of Closing Quotations November 3, 1967Philippine Treasury Notes and Bonds

<u>Amount Outstanding (Millions of ₱)</u>	<u>Issue and Maturity</u>	<u>Bid Price</u>	<u>Offered Price</u>	<u>Approx. Yield</u>
15.0	Treasury Note 5% of 1964 due 12/29/67	99.84	99.88	5.65%
15.0	Treasury Note 5% of 1965 due 3/25/68	99.46	99.50	6.15
15.0	Socio-Economic 7% of 1963 due 2/1/73	100-1/2	101	6.75
18.5	PW & ED 4-1/2% of 1963 due 12/26/73	88-1/4	88-3/4	6.81
5.0	PW & ED 6% of 1958 due 9/22/83	88-3/4	89-1/2	7.11
5.0	PW & ED 6% of 1958 due 10/13/83	88-3/4	89-1/2	7.11
10.0	PW & ED 6% of 1958 due 11/10/83	88-3/4	89-1/2	7.11
.3	PW & ED 6% of 1959 due 3/2/84	88-1/4	89	7.15
2.7	PW & ED 6% of 1959 due 4/17/84	88-1/4	89	7.15
4.0	PW & ED 6% of 1959 due 4/17/84	88-1/4	89	7.15
9.7	PW & ED 6% of 1959 due 9/10/84	88	88-3/4	7.15
3.0	PW & ED 6% of 1960 due 1/2/85	87-1/2	88-1/4	7.20
7.0	PW & ED 6% of 1960 due 2/15/85	87-1/2	88-1/4	7.20
1.0	PW & ED 6% of 1960 due 5/10/85	87-1/2	88-1/4	7.20
5.0	N.P.C. 6% of 1959 due 6/10/89	85	86	7.30
27.9	N.P.C. 6% of 1964 due 3/2/94	83	84	7.38
14.4	NAWASA 6% of 1964 due 3/23/94	83	84	7.38

GLOSSARY OF MARKET TERMS FOR
GOVERNMENT SECURITIES

GLOSSARY OF MARKET TERMS FOR
GOVERNMENT SECURITIES

After Tax Yield - is the income on securities after adjusting for taxes.

Array of Tenders - is the schedule of prices at which competitive bidders tender their bids.

Asked - that yield (or price) at which one is willing to sell securities.

Auction - the process whereby interested buyers of securities submit their bids for securities announced for offering.

Award - allocation of an offering to accepted bids where awards are given to the highest bidders in price.

Bank Discount Rate - is a method of computing interest and price where the rate is based on the maturity value. The formula for this is as follows:

$$i = \frac{100 \times r \times t}{T}$$

where:

i = peso amount of interest for a bill of
P100 maturity value

100 = maturity value of bill

r = discount rate expressed in decimals

t = number of days to maturity

T = 360 days

The market price is computed by the following formula:

$$MP = 100 - i$$

where MP is the market price.

Basis Point - 1/100th of 1% or .01%

Bid - that yield (or price) at which one is willing to purchase securities.

Types of Auction Bidders:

Competitive Bid - is a bid tendered by a buyer of securities at a price.

Non-Competitive Bid - is a bid tendered by a buyer of securities without a price; the amount bid by the non-competitive bidder will be awarded in full and settlement will be made at the average bid price of all accepted competitive bids.

Bid to Get - the highest bid among the array of bids; this bid is submitted by one who usually desires to be assured of the amount bid and consequently tenders a bid higher than where the market expects the bidding to be.

Tail-Out Bid - a bid at the highest unaccepted bid price or that price below the lowest accepted bid price.

Throw Away Bid - bid at an extremely low price with narrow chance of acceptance; the bidder hopes that if the market has little support, a bargain might be gained.

Scale Bid - during an auction, the submission by a bidder of various amounts bid and posted at various prices: this is done for averaging purposes.

Spot Bid - a relatively large amount posted at one price.

Stop-Out Bid - a bid at the lowest accepted bid price.

Break-Even Point - when, in the case of tax anticipation bills, payment by credit to the tax and loan account is permissible, the break-even point for

bankers is the equality of the interest earned on a tax and loan account deposit at an assumed life and the loss on the sale of bills at a yield higher than its purchase yield.

Custodian Account - that section of the Philippine National Bank which handles the safekeeping, accounting, transfer and reporting of securities held for the account of authorized security dealers.

Day Clearance - the purchase and sale of securities for settlement or for value on the same day.

Dealers' Departments:

Trading Section - section or function of a dealer which is primarily engaged in the quoting of a market for securities as well as the purchase and sale of securities.

Sales Section - department or function of a dealer which is primarily involved in the selling of securities in inventory.

Research Department - department whose function is to compile the various statistics on money market instruments and interpret such statistics in the light of money market and economic conditions so as to enable management to form appropriate policies.

Dealer Minimum Capital - is the minimum amount of capitalization stipulated by the Central Bank for dealers to enable them to operate as authorized dealers in government securities.

Dealer Network - group of companies authorized to trade in securities for the purpose of maintaining an orderly and efficient market for such securities.

Delivery:

Cash Delivery - where settlement is for the same day or where securities are delivered upon presentment of cash payment.

Regular Delivery - value or delivery and settlement one day after the deal is made.

Delayed Delivery or Forward Delivery - value or delivery and settlement two days or more after a transaction is made.

Depth, Breadth and Resiliency - characteristics of a market which possesses high turnover volume, a large number of buyers and sellers who are willing to take or give a large number of securities so that transactions in the market find ready support and are handled in a systematic manner without the appearance of chaotic and disorderly conditions.

Discount - when securities sell at a price less than par, or when, in the case of bonds, the nominal yield is lower than the quoted market yield.

Financing of Dealers - the carrying of dealer positions in securities through short term borrowings from or repurchase agreements with other entities.

Repurchase Agreement - a contract executed between a buyer and a seller (usually the dealer) of securities whereby the seller undertakes to repurchase the securities sold and/or the buyer agrees to resell to him the purchased securities on some future date at a price pre-determined in advance; RP's may be effected between dealers and banks, insurance companies, corporations, the PNB or the Central Bank.

Secured Call Loans - day loans granted to dealers with government securities as collateral.

Unsecured Call Loans - day loans given where debtor (in this case, the dealer) offers no collateral.

Reverse Repurchase Agreement or Resale Agreement - is the purchase by dealers and the sale by non-dealers of securities with the agreement to resell such securities (on the part of the dealer) or repurchase such securities (on the part of the seller); a reverse repurchase agreement represents financing by a dealer to a non-dealer which also enables the former to increase his inventory of

securities, and occurs usually when the market is extremely thin or when dealers are relatively low in their inventory of securities.

Types of Government Securities:

Treasury Bills - securities issued by the government by the Treasury having a maturity under one year and sold on a discounted basis.

Certificates of Indebtedness - interest bearing securities issued by the government with maturities under one year when issued.

Notes - interest bearing securities issued by the government with maturities from over one year to five years when issued.

Bonds - interest bearing securities with maturities of five years or more when issued.

Hedging in Bills - the purchase of bills in a foreign market and a simultaneous sale of the proceeds at maturity on the forward exchange market to (a) increase one's yield, (b) ensure his returns in the home currency.

Income on Securities:

Interest - is income derived from a security through its yield when held over a period of time.

Trading Profits - when some market quote is given trading profit is income derived from the difference between the yield at which securities are bought and the yield at which they are sold.

Capital Gains - resulting increase in the principal value of a security due to a fall in the market yield quoted for such security.

Capital Loss - resulting loss in the principal value of a security due to a rise in the market yield of that security.

Last Resort - is the source of financing which dealers would look to after having exhausted all possible sources; the last resort here is the Central Bank.

Leverage - the amount of financing which a dealer might obtain to carry inventory by furnishing some margin out of his own funds.

Liquidity - readiness of a security's conversion into cash with little or no loss in value.

Earning Liquidity - the ability of assets to generate income (as contrasted to non-income earning cash balances) while readily convertible into cash.

Lending Liquidity - that asset (especially of a commercial bank) which is readily convertible into cash when needed to satisfy the legitimate borrowing requirements of clients.

Protective Liquidity - that asset (especially of commercial bank) which can readily be converted into cash to meet withdrawals by depositors.

Locking-in Effect - when interest rates rise, prices of securities fall; this discourages sale due to the capital loss involved, hence the security holder has "locked in" the security until maturity.

Making a Market - ability and willingness of traders in securities to quote simultaneously a buying price (or yield) and a selling price (or yield).

Margin Requirement - is the amount that the dealer must supply out of his own funds to obtain financing for his position; the margin determines the leverage in dealer financing.

Money Market - meeting place of borrowers and lenders of short-term funds.

Classes of Sub-markets:

Supported Government Securities Market - market for securities (notes and bonds) issued by the government with the full support of the Central

Bank; the securities are tax free and in the case of purchasing banks are eligible for reserve requirements.

Bank Deposit Market - is the market enabling banks to borrow funds for a specified period of time; the instrument generated is generally referred to as a time deposit or a bankers' acceptance (which differs from a time deposit only by tenor).

Inter-bank Market - market for short-term money (usually on call basis) where a group of banks trade with each other.

Inter-company Market - is an assembly of (1) corporations tendering their prime credit names to generate short-term funds, and (2) the financiers of such credit.

NAPGSD - National Association of Philippine Government Securities Dealers; authorized by the Central Bank to operate in the marketing and trading of government securities, and enjoying financing privileges from the Philippine National Bank and the Central Bank as a last resort.

Offering:

Cash Offering - offering by the Central Bank of government securities where settlement is to be made in cash.

Exchange Offering - offering made by the Central Bank where buyers may exchange the stipulated (by the Central Bank) securities which they hold for securities being offered.

Open Market Operations - purchases and sales by the Central Bank in the free market for their own account in the pursuit of desired monetary policy.

Penalty or Prohibitive Rate - is a rate above the prevailing market rate of a security which is offered for discount or sale; the penalty rate is quoted by one financing the loan to discourage such financing or to make it costly.

Position - amount of a particular security or securities held in inventory.

Long Position - inventory of a large amount of long dated bills relative to short dated bills; used in another context, a long position is a simple positive balance in inventory of a particular bill.

Short Position - inventory of a large amount of short dated bills relative to long dated bills; used in another context, a short position is a simple positive balance in inventory of a particular bill.

Position Sheet - the tabulation by dealers depicting the amounts in inventory of securities of all maturities.

Premium - when securities sell at a price greater than par; or when the nominal yield is greater than the quoted market yield.

Prices in Auction and Award, Classes of:

High Price - is the highest competitive bid price in an array of bids.

Cut-off Price or Low Price - lowest accepted of all competitive bid prices.

Average Accepted Price - the weighted average (by amount) of all prices bid and accepted by the Central Bank.

Proportion Awarded at Low Price - when the amount to be awarded at the low or cut-off price is not sufficient to meet total amount bid at that price, the award is allocated proportionately to all bidders at that price.

Primary Market - the initial marketing or sales of securities to the public.

Quote - the simultaneous expression of bid and asked yields (or prices).

R.A. 245 - Republic Act authorizing the government to float securities in the form of bills, notes and certificates of indebtedness.

Redemption - is the exchange for cash of all maturing obligations.

Refunding or Rollover - redemption of an outstanding security and the issuance of a new security in its place.

Advance Refunding - the exchange of a new issue for an outstanding issue where the latter has still some period of time to run to maturity.

Reporting:

Commitment Reporting - the reporting of positions inclusive of future commitments to acquire or dispose of securities.

Executed Reporting - the reporting of positions only after they have executed or only after transactions have been settled.

Reserve Account or Trust Account - current and/or overdraft accounts kept by a dealer in the Philippine National Bank to serve as the former's operating and trading balances.

Reserves:

Primary Reserves - are reserves which commercial banks must keep to meet their deposit obligations.

Secondary Reserves - are assets which banks must keep to enable them to satisfy the following (a) withdrawals by depositors, (b) legitimate loan requests from clients, (c) income objectives of bankers' portfolios.

Riding the Yield Curve - in the case of an upward sloping yield curve which is expected to continue for some time, when (a) an investor purchases longer dated securities at a higher yield, (b) at some future date sells such securities at a lower yield to realize both security profits and capital gains,

and (c) reinvests in long dated securities, repeating the process for as long as the curve has this slope and for as long as this is expected to continue.

Secondary Trading - the purchase and sale of securities in the free market after such securities are floated by the issuer.

Short-Sales - are sales of securities which are not in one's ownership (and which will have to be borrowed).

Speculation - speculation in government securities market means taking a position in security with the expectation that a profit can be gained as a result of the anticipated change in rates

Spread - the difference between a bid yield and asked yield.

Inside Spread - actual spread as reflected in quoted bid and offered yields; these are given for round or standardized amounts.

Outside Spread - market quotations outside the quoted bid and offered yields; these are usually given for odd amounts.

Tax Anticipation Bills - are securities floated by the government whose maturities coincide with tax payment dates to enable tax paying investors to purchase such bills (at a discount) and have such bills eligible for tax payment on such payment dates.

Tax and Loan Account - special deposit accounts established by the government in commercial banks encouraging bankers' subscriptions for the offered securities (by credit to such deposit accounts), and subsequently enabling the depositary (1) to make use of interest free deposits until such time that the government withdraws from such account, and (2) to resell the bills in the market at more attractive rates; also some tax payments to the Bureau of Internal Revenue may be made by taxpayers through credit to the tax and loan account on (or before) tax dates.

Technical Factors - temporary aberrations in market conditions which for a short period offset to some degree the pervasive influence of more persistent, underlying forces. (As contrasted to Fundamental Factors)

Tenders - submission of price bids by buyers for the securities being offered.

Test Key - a code whereby transactions are effected over the telephone or telegraph between the Philippine National Bank and the authorized dealers to effect the speedy transfer of securities and/or reserve balances, and to prevent fraudulent transmittal of advice.

Thin Issues - are securities of a particular maturity which are outstanding and which are scarce in the market relative to other issues.

Trader - is one willing to purchase and sell securities.

Trading Conventions - a set of established rules (formal or informal) which governs the trading activities of dealers in securities; the rules are designed to insure orderly conditions in the market, and to prevent cut-throat competition on one hand and market collusion on the other.

Trading on When-Issued Basis - trading between the announcement of offering of securities and the issue date.

Treasury Bill Cycle - (a) the entire life of a Treasury bill; also (b) the first cycle involves the first 91 days after the first issue, where issues are floated two weeks apart for a total of 7 issues, and the second cycle is the second 91-day period where issues are floated two weeks apart for a total of 6 issues and where maturing issues during the first cycle are rolled over.

True Discount Rate - is a method of computing interest where the rate is based on the principal at the beginning of the period.

The formula for this is as follows:

$$SP + \frac{SP \times r \times t}{T} = 100$$

where:

SP = selling price
r = interest rate and if given
t = number of days to maturity
T = 360 days
100 = maturity value of bill

Turnover - is the volume of transactions in a market or the amount of securities undergoing transfer of ownership for a given period.

Unwinding - process whereby a position in securities is brought to a desired level.

Value Date - is the date of settlement or that day when there is transfer of securities from one account to another and payment for transactions is made.

Volatility of Yields and Prices - as of a given point in time, short dated securities possess yield volatility but price stability relative to long dated securities; long dated securities possess yield stability but price volatility relative to short dated securities.

Yield Curve - line depicting the relationship between interest rates (p.a.) which one borrower is willing to pay and the various periods to maturity as of one given point in time.

Downward Sloping Yield Curve - is a curve existing as of a given point in time depicting high interest rates for short dated securities and low interest rates for long dated securities.

Humpbacked Yield Curve - is a curve existing as of a given point in time depicting low interest rates for short dated securities, high interest rates for medium dated securities, and low interest rates for long dated securities.

Upward Sloping Yield Curve - is a curve existing as of a given point in time depicting low interest rates for short dated securities and high interest rates for long dated securities.

Yield and Price Relationship - given a number of days to maturity: an increase in market yield results in a decrease in market price (and vice versa); and a decrease in market yield results in an increase in market price (and vice versa).